

PREM 19/1172

29/12
25/12

Confidential Filing

Direct Broadcasting by satellite
Cable systems and their
effects on Broadcasting policy

BROADCASTING

Part 1 March 1980

Part 4 June 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
21.6.83		13.3.84					
28.6.83		15.3.84					
8.11.83		30.3.84					
2.11.83		3.4.84					
15.11.83		7.4.84					
23.11.83		13/4/84					
28/11/83		18/4/84					
15.12.83		25.4.84					
7/12/83		27.4.84					
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30.1.84							
3.2.84							
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PART 4 ends:-

M Buckley to PM (E057) 27.4.84

PART 5 begins:-

AT to Home Office 1.5.84

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Reference No: E056

PRIME MINISTER

Direct Broadcasting by Satellite

You are holding a meeting of Ministers on Tuesday 1 May to discuss the proposals in the joint memorandum by the Home Secretary and the Secretary of State for Trade and Industry attached to the Home Secretary's minute of 30 March.^A Doctor Nicholson has submitted a brief on the technical considerations.^B This is a handling brief. A Policy Unit note is also attached.^C

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B
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BACKGROUND

2. In March 1982 the Government announced that it would make a start with direct broadcasting by satellite (DBS). The BBC would provide a two-channel service through a satellite system produced by Unisat, a consortium of British Aerospace, GEC-Marconi and British Telecom. Subsequently it was agreed that the IBA should also provide DBS in competition with the BBC; provisions to this end are included in Part II of the Cable and Broadcasting Bill.
3. Various difficulties then arose. Ministers asked Mr Jeffrey Stirling to use his good offices to explore with all parties concerned whether there were ways of keeping the project going. It was regarded as desirable to do so both for industrial reasons and in order to develop a new means of broadcasting.

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4. The resulting proposals are summarised in the joint memorandum. The aspects of particular concern to the Government (paragraphs 4 and 5 of the memorandum) are as follows.

(i) The initial provision of DBS would be through a joint venture between the BBC and Independent Television interests, using the Unisat satellite. There would for some years be no competition between DBS services in the United Kingdom.

(ii) The present 'terrestrial' contracts of the ITV companies run from the beginning of 1982 to the end of 1989. The IBA is required by statute to readvertise the contracts when they come up for renewal. The companies argue that if they are exposed to the risk of not having their contracts renewed after 1989 they will not be able to justify the investment required for participation in DBS. To meet this point, the two Ministers propose that the readvertising of contracts, for 1989 only, should be made discretionary rather than mandatory.

The Government's decisions would be announced during Second Reading of the Cable Bill, which is expected to take place during the week beginning 7 May.

5. The two Ministers recognise that even if the proposed changes were made there is no guarantee that the DBS project would go ahead. But they argue that the Government will be seen to have done all that can reasonably be expected of it to encourage the project.

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6. Since 30 March there has been extensive Ministerial correspondence. In particular, the Chancellor of the Duchy of Lancaster ^(D) has argued that the proposal at (ii) above should be dropped; and that the period under (i) during which there would be no competition, should be shortened. Your Private Secretary's letter of 13 April records that you agree very strongly with these views. The Chief Secretary, Treasury has expressed concern that if the Government appears to be the demandeur, that will encourage participants in the project to seek to transfer part of the financial risks to it.

MAIN ISSUES

7. The two specific issues before the meeting are as follows.

(i) Should the Government accept that there will be no competition in DBS for several years?

If there is to be a period in which there is no competition, how long should it be?

(ii) Should the requirement on the IBA to re-advertise contracts be changed (for 1989 only) to a discretion?

8. However, underlying these specific issues are more general questions: what are the Government's objectives in the field of DBS; and what is the appropriate degree of its commitment to the particular project under discussion? There are technical and industrial arguments for encouraging the development of DBS; and it may also be desirable in terms of broadcasting policy. But are these arguments so strong that the Government should adopt a policy of not merely encouraging, within suitable limits, a project whose justification is primarily commercial and a matter for the

market, but also of regarding the development of DBS as an objective of Government policy in its own right? To what extent should it change its general policies, particularly on broadcasting and competition, in order to promote the present venture, rather than waiting until the market has developed sufficiently to support a DBS project which does not require so much modification of those policies?

Postponement of competition

9. It is not entirely clear how long the proposed period of protection from competition would last. Paragraphs 2 and 11 of Annex C to the joint memorandum imply that the broadcasters want it to run for seven years from the start of DBS programmes (and perhaps even longer - paragraph 2 talks of the possibility of extension by Order); paragraph 11 suggests that the period should be a minimum of five years rather than seven, but with the possibility of extension.

10. The meeting will therefore need to consider two questions.

(i) How long should the basic period be? This is necessarily a matter of judgement; but, if Ministers think that it is worth trying to keep the project alive at all, there is little point in offering a period which the broadcasters will regard as clearly inadequate.

(ii) Should there be provision for extension of the period? The purpose of such a provision would presumably be to allow the participants a further period of monopoly if they had not yet secured what they regarded as adequate profits. Ministers

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may take the view that this is the sort of risk that participants in the project should be prepared to accept.

Contracts after 1989

11. Under the proposals in the joint memorandum the IBA would technically have the right (but not the duty) to readvertise the contract of any participant in the project whose performance was unsatisfactory. Nevertheless, as the Chancellor of the Duchy of Lancaster has pointed out, it seems clear that in practice participants would enjoy a substantial degree of assurance that their contracts would be renewed in 1989. Indeed, it is the essential purpose of the proposal to give that assurance.

12. The proposal entails both a significant limitation of competition and a big change in broadcasting policy. It was decided only four years ago that ITV franchises should last for a fixed term and be subject to compulsory readvertising. Ministers will need to consider whether the industrial advantages and the desirability of fostering a new, though perhaps rather peripheral, type of broadcasting justify the change.

Degree of Government involvement

13. It seems clear that if Ministers wish to keep the DBS-by-Unisat project alive some concessions will have to be offered. But, as the Chief Secretary, Treasury has pointed out, offering concessions necessarily involves the Government and may make it difficult for the Government to disclaim all responsibility if the project should eventually fail. The minute of 12 April from the Secretary of State for Trade and Industry says that the satellite manufacturers are likely to ask for some form of Government guarantee for

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early development costs. Ministers may wish to consider how serious the risks are of further Government involvement and whether anything should be done to reduce them.

HANDLING

14. You will wish to invite the Home Secretary and the Secretary of State for Trade and Industry to open the discussion. The Chancellor of the Duchy of Lancaster and the Chief Secretary, Treasury might then be asked to develop the points that they have made in the previous correspondence.

CONCLUSIONS

15. You will wish the meeting to reach conclusions on the following.

(i) Whether DBS should initially be provided by a joint venture as proposed in the memorandum by the Home Secretary and the Secretary of State for Trade and Industry; and, if so

- how long the period of restriction on competition which such a joint venture will entail should last;
- whether it should be fixed, or extendable by Order.

(ii) Whether the readvertising in 1989 of the contracts of independent television companies participating in the joint venture should be made discretionary.

(iii) Whether any steps should be taken to minimise the risk of financial involvement on the part of Government in the project.



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The Government's decisions will presumably be announced during Second Reading of the Cable Bill.

M.S.B.

M S BUCKLEY
Cabinet Office
27 April 1984.

CONQUEROR
LONDON

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POLICY UNIT
27 April 1984

PRIME MINISTER

DBS

DBS will be an important broadcasting development and one which is likely to provide significant technological opportunities for the UK.

However, we are now in danger of not only failing to realise these opportunities but of making damaging and inappropriate concessions for our general approach to broadcasting and our commitment to competition.

We do not consider that the proposed concessions are desirable on either broadcasting or wider industrial grounds.

We have the strong impression that the Government's support of a British DBS system based on the Unisat Satellite has encouraged the broadcasters to seek concessions in order to offset what would otherwise be an unacceptable commercial risk. It is significant that both the BBC and the ITCA companies have not displayed any great enthusiasm for the proposed DBS concept which appears to be seen more as a solution to help the Government.

The joint venture should only be allowed to proceed if it is commercially viable on its merits. Any other basis will block alternative options and is likely to be a continuing source of trouble for the Government.

The Industrial Case

Satellite - There has been an understandable attempt to find a satisfactory solution involving Unisat. The industrial considerations have all along been given more weight than the broadcasting and competition issues.

In terms of UK space activity, we do not consider that Unisat is a particularly important development for UK satellite technology. It is certainly not crucial, as Robin Nicholson's minute demonstrates.

If the Unisat consortium did collapse, we would expect the market to produce several alternative satellite options which would be acceptable to the broadcasters. Britsat is just one example which has not been considered on an equal footing with Unisat. A 1987 launch date for Unisat is doubtful and we would not expect the choice of satellite to be critical for the timing of a DBS service.

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If Unisat did not proceed there would be a row over the £50 million which has already been committed. However, this would be a matter for the parties involved. The Government has no financial commitment to the DBS project.

Receiving Equipment - The more important industrial argument concerns the set manufacturers and several changes in recent years have reduced the earlier enthusiasm.

The original DBS concept was based on a 1986 launch and the acceptance of C-MAC as a pan-European technical standard. Neither of these premises will be fulfilled.

In addition the development of cable has significantly affected initial market assessments. The formation of projects such as that by Rupert Murdoch's News International which involves low power satellite broadcasting to cable head ends has further changed the picture.

The BBC are already thinking about the prospects for high definition television broadcast by satellite in the late 1980s or early 1990s.

In these changed circumstances, it becomes even more important that the broadcasters make an explicit commercial assessment of what is in both their short and long term interests.

The collapse of the joint venture DBS project would allow a period of re-assessment. Although in the short term such a collapse would be a matter of regret, in the longer term we are confident that alternative British DBS systems would be developed.

We do not consider, therefore, that the proposed DBS joint venture is the UK's last chance to enter into the potentially profitable and significant area of satellite broadcasting.

The Criteria for the Joint Venture

Given the position which has now been reached, we consider that the essential elements of a compromise solution should be:

1. to grant no concessions on the re-advertising of ITV terrestrial franchises in 1989

The suggested discretionary system would in practice, as Lord Cockfield points out, be no different from a formal extension. The Government and the IBA would be under a moral commitment not to re-advertise the franchises of any of the companies involved in DBS.

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To give the ITCA companies greater security for their terrestrial franchises would be inconsistent with our expressed intention that any DBS project should be a free-standing, independent entity.

Nevertheless we do understand the concerns of the ITCA companies to ensure continuity of the DBS project through 1989. If transfer of the equity commitment to DBS at its market price is unacceptable to the companies in the event of a franchise change, continuity could still be ensured by a requirement on any new competitor for a terrestrial franchise to accept the DBS commitment. As perhaps only one or two franchises would be changed, the amount of upheaval in the DBS project would be minimal.

2. to limit the life of the joint venture to seven years, the life of the satellite system

A joint venture is itself a significant compromise which will expose the Government to criticism of suppressing competition to the benefit of the existing players in the game.

It is therefore essential that the life of the joint project should be limited to seven years and that there should be no possibility at the outset of any extension. After seven years the joint venture company would be broken up, allowing the broadcasters separately to compete with others for all the available DBS channels.

3. to ensure third party participation in the joint venture and suitable opportunities for independent programme makers

The intention to allow non-ITCA private sector companies to participate in the joint venture is an important step in ensuring that third parties are given some opportunity to become involved in DBS at an early stage.

However, third party involvement should also be seen as a test of the commercial soundness of the venture and should not be bought at the price of further concessions ie an extended life of the joint venture.

It will also be important to ensure that opportunities are open to independent programme makers to supply programmes to the joint venture. This applies particularly if the BBC with 50% of the project wishes to exercise an understandable degree of editorial control.

We are also unconvinced of the need to allow the BBC a 50% share in the joint venture. A more equitable split

amongst the BBC, the ITCA companies and third parties would help to spread the risks.

4. to make clear that the Government will in no circumstances underwrite the costs of either Unisat or the joint venture

It is important that all parties are convinced of the Government's determination on this point. Not only are we not prepared to commit public resources to DBS but we must ensure that the risks as well as the potential rewards are fully accepted by the joint venture partners.

Recent experience has not been encouraging with Unisat unwilling to share any of the risks involved.

A joint project will not be easy to manage and there are likely to be considerable tensions amongst the parties involved.

The BBC has been informed that there would not be recourse to the licence fee except in the event of a collapse of the project. In such a case, the Government would not meet the liabilities of the project nor would the licence fee be increased. In practice, we are doubtful that the BBC really expect the Government to allow existing services to suffer and are sceptical that they are taking a realistic view of the risks of DBS.

It will also be necessary to state clearly that DBS expenditure would not be offset against the ITV levy. This would amount to indirect financing of the project and a transfer of risk to the Government.

On the other hand, we see no objections to allowing advertising on at least one of the channels from the outset, if this helps to improve the finances of the joint venture.

5. to minimise the period of protection for the joint venture

Provided that satisfactory conclusions are reached on the above four points, there could be a case for postponing competition between UK DBS services in the early years of the joint project.

We are not entirely convinced of this argument. Nevertheless, if some degree of protection is felt to be necessary, this should be kept to the minimum.

Any future competition should certainly be able to begin broadcasting at the end of the seven year life of the joint project. This would require advertising the five DBS

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- 5 -

frequencies in about year 4 of the joint venture ie about 1991/92.

There is also a case for allowing earlier competition on the grounds that even a few years start puts the joint venture in an extremely strong market position.

Earlier competition should also be considered if DBS reaches its commercial break even point sooner than current assessments of market demand predict.

Conclusions

Our best chance of realising the important broadcasting and technological opportunities which DBS is likely to provide is through a soundly based commercial project.

Both ITCA and the BBC in their different ways appear to be seeking Government guarantees and concessions which would not be necessary if they indeed do have a commercially based project.


We recommend that the joint venture concept should only be supported if it is acceptable to the partners on its intrinsic commercial merits.

This requires

- no concessions on the re-advertising of ITV terrestrial franchises in 1989
- limiting the life of the joint venture to seven years
- third party participation
- acceptance that the Government will in no circumstances underwrite the costs of the project
- minimising the period of protection for the joint venture before open competition is allowed.

If these conditions are unacceptable to the partners, we do not consider that a collapse of the project would prejudice the longer term prospects for satellite broadcasting in the UK. It is likely that alternative UK DBS systems will emerge.

A collapse would probably mean the end of the Unisat consortium. However, we do not believe that Unisat is crucial for longer term DBS prospects nor do we consider that Unisat is essential for the development of UK space technology.


DAVID PASCALL

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MINADD

W.0326

Mr Turnbull

27 April 1984

MR BARCLAY

DIRECT BROADCASTING BY SATELLITE - 1 MAY MEETING

- I enclose a minute for the Prime Minister on DBS. It has been copied only to Sir Robert Armstrong but I have, of course, no objection if it is felt that it would be helpful for other Ministers attending the meeting to see it.

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ROBIN B NICHOLSON

W.0325

27 April 1984

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

FMA.

This minute summarises the technological considerations which are a major part of the DBS problem outlined in the joint memorandum of 30 March by the Home Secretary and the Secretary of State for Trade and Industry.

2. The basic concept of the original DBS project was to provide an all-British satellite for the television technology of the future, broadcasting to a new European technical standard (C-MAC) which, conveniently, required new TV sets (or adaptation of existing sets) just as the partial protection of the European Market from Far Eastern competition was in danger from the lapse of the German PAL patents.

3. Unfortunately the commercial basis of the project was never as strong as its technical basis and this, coupled with other unforeseen changes in the broadcasting scene, has (as I suggested in my minute of 16 December) brought the project to the verge of collapse. The major factors have been:

(a) the advent of cable which is partly aimed at the same market - this caused the BBC to become concerned about the size of the market for DBS and led to the involvement of the ITCA companies on a risk-sharing basis;

(b) the indications by the French and Germans that they will not use the European standard (the Germans will stay with PAL so their broadcasts can continue to be received in East Germany while the French seem likely to go for a

reduced MAC system which can be carried on on single cable distribution channel - C-MAC requires two channels) - this has substantially reduced the size of the European market for C-MAC and further eroded the confidence of the set manufacturers and their willingness to plan for the production levels that the BBC require for financial viability of the programmes;

(c) the development of Unisat as a hybrid satellite for telecommunications as well as DBS to meet the requirements of BT as a member of the Unisat consortium - this has made it unlikely that Unisat will have a significant export market;

(d) the drifting timetable, a 1986 start is now impossible, a 1987 start unlikely since the critical factor is getting enough sets in the shops and it takes 3 years from finalising the chip design to production of the first set - this causes further financial worries for the BBC who will have to pay for Unisat regardless of whether the sets are available in time.

4. The joint memorandum by the Home Secretary and the Secretary of State for Trade and Industry is an attempt to patch up the DBS project along the original lines as far as possible, regardless of the changes in the scene outlined above. These changes will exacerbate the tensions present between the partners in the project and, in my view, are likely to cause further crises even if a temporary solution is found for the present problems. Thus there is a high probability of commercial failure in the late 1980s with accusations of bad faith passing between the principal parties, and all turning to the Government to bail them out of a mess into which, in their view, it led them. What, then, are the penalties of letting the project fail now?

(a) Space industry

Because of the limitations of BAe and Marconi shorn of their

normal American and French partners, the "all-British" satellite has become 50-60% British, ie a similar British content to the normal commercial consortia which BAe and Marconi use for bidding for international contracts. Unisat is worth about £60m to BAe and Marconi and the export prospects are poor. Although the successful completion of Unisat would improve the credibility of BAe/Marconi as satellite suppliers, DBS is just one application of space technology and the loss of the project would not cripple the UK space industry. The Unisat consortium would presumably try to recover the £50m already committed from the BBC or the Government but does not appear to have a strong case.

(b) TV receiver industry

While the space aspects of DBS capture the attention, most money will be spent on the ground. UK TV set manufacturers are looking for an advanced product with which to fend off competition from the Far East. DBS with C-MAC would provide this and the manufacturers would expect to supply satellite dish aerials and associated electronics at a retail cost of about £400. Thus, on BBC projections (2 million viewers in 5 years) there is potential business of £800 million at shop prices (£400 million to the manufacturers, say) in the 1987-92 period. But the export prospects are very unclear. The hope of the Part Committee (which recommended the C-MAC standard) of a European DBS transmission standard seems to have disappeared and the UK risks being left with an idiosyncratic standard, good for protection purposes but not for exports. Without DBS, however, Korean and other Far Eastern products may erode our £500 million pa domestic TV industry, even though our largest manufacturer, Thorn-EMI, is working at Japanese efficiency standards.

(c) Film and programme production

The three DBS channels will cost £50-100 million pa to programme. Most of this will go on buying first-run feature films, some of which will be produced in the UK. These will be offered on the subscription channel (£7-8 a month). The

other channels will have cheap imports, repeats of popular programmes etc. The business for the UK might be £25 million a year but is small compared with that for the TV receiver manufacturers.

5. I conclude that the penalties of letting this project fail are not catastrophic, and they are certainly less serious now than they would be if the project was to continue with Government support and then fail a year or two later.

6. Moreover I believe that new opportunities would open up quite rapidly to compensate for these losses. For the concept of DBS will not go away with Unisat - neither should it. It is widely accepted that it will become the primary means of distributing TV programmes. The BBC and the ITCA companies would need to reconsider their position. A 1987 start would be out, but 1988 would be possible. The BBC might, however, consider omitting the interim C-MAC standard and going straight for a high definition (1000+ line) service by satellite in 1989 as the Japanese propose to do. This could have (given suitable programming) substantially greater market attraction. They would issue requests for competitive tenders for satellites with an expectation that BAe or Marconi would be the prime contractor selected.

7. Of course some commercial risks would remain, and the Government would have to judge whether the BBC was suitably constituted to take them, or whether private sector companies were a more suitable vehicle. But everyone could start with a clean slate and work out the option with the best commercial prospects in today's world.

8. I conclude, therefore, that

i. DBS has significant industrial benefits, most of which concern the TV set manufacturers. Unisat is not vital to these; it is therefore more important to have a viable DBS than Unisat;

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ii. you should not go beyond Lord Cockfield's proposals
in making concessions to the independent TV companies;

iii. if that causes the failure of this project, it is not
a catastrophe;

iv. but in those circumstances Government should make it
clear that it is receptive to new DBS proposals developed
from a 1984 view of the market and not constrained by
1980/81 perspectives.

9. I am copying this minute to Sir Robert Armstrong.

RBN

ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
27 April 1984

27 FEB 1984



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E. cc 2/10



CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

25 April 1984

Dear David

B/H to me tomorrow pm

DIRECT BROADCASTING BY SATELLITE: JOINT PROJECT

Christine Heald sent us a copy of her letter to you of 18 April.

The meeting arranged for 1 May will no doubt discuss the possibility of shortening the period during which the Joint Project might be shielded from competition and whether that would seriously threaten its ultimate viability. The purpose of this letter is to put right any misunderstanding which may have arisen over the "entrenchment" of the existing terrestrial franchises.

It is of course true that to remove the obligation to readvertise would not preclude the possibility. But the very purpose of amending Section 19(4) of the Broadcasting Act would be to be able to relieve the existing franchisees of uncertainty. That would of course be made clear to Parliament and hence to the IBA and the companies, whose presumption clearly is that the relief will be used, to judge by the decisive importance they attach to it. That, in Lord Cockfield's view, is in practical terms more than enough to constitute entrenchment.

I am sending copies of this letter to the Private Secretaries to the members of E(A) and H Committees and to Richard Hatfield.

yours ever
Sebastian Birch

SEBASTIAN BIRCH

✓
David Barclay Esq
10 Downing Street
London SW1

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Broadcasting - ABS #4

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HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

18 April 1984

B/f to me
on 26 April pm.

19/4

Dear David,

DIRECT BROADCASTING BY SATELLITE: JOINT PROJECT

Thank you for sending me a copy of your letter of 13 April to Andrew Lansley about the DBS joint project.

The Home Secretary agrees that a meeting will be needed in order to reach a decision on the proposal, and understands that one is to take place on Tuesday, 1 May. In addition to the reasons for urgency set out in Mr Tebbit's minute of 12 April, it now seems likely that Second Reading of the Cable Bill will be on Tuesday, 8 May, and it will be necessary to have policy proposals ready for announcement then.

Meanwhile the Home Secretary believes it may be helpful to offer the following comments on the two modifications of the proposals suggested by the Chancellor of the Duchy of Lancaster, at the end of his minute of 12 April, as a means of rendering the scheme more acceptable to him. First, as regards the period during which the proposed Joint Project would be guaranteed protection from competition, the Home Secretary is anxious that a competitive regime should not be postponed for longer than is strictly necessary, and has himself already been considering whether some shortening of the period proposed would be possible. At the same time, it has to be recognised that the object of the Joint Project - to establish a British DBS service on a firm footing - could be jeopardised if competition for audience and revenue had the effect of fragmenting them before they were surely established.

As regards Lord Cockfield's second point, regarding the terrestrial franchises of the existing ITV companies, it is important to appreciate that the proposal is not to "entrench" these in the sense that the possibility of a change of contractor at the end of the present franchise period is excluded. The proposal is simply to substitute, for obligatory re-advertisement of the contracts for 1990 onwards, the former arrangement of a discretion in the IBA whether or not to re-advertise. Thus the ITV companies are not guaranteed the renewal of their contracts, nor is the IBA prevented from re-advertising them - though it would not be obliged to do so if satisfied with a contractor's performance. The Home Secretary was persuaded, in the course of discussions with the IBA and ITCA

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regarding the possible shape of a joint DBS project, that without this degree of relief from the re-advertisement requirement the ITV companies could find themselves unable to participate, so that the project would collapse. The loser in that eventuality would not simply be Unisat; wider interests of a British DBS broadcasting service could be at stake.

I am sending a copy of this letter to the Private Secretaries to the members of E(A) and H Committees; and to Richard Hatfield (Cabinet Office).

Yours ever,

Christine Heald

MRS C J HEALD

David Barclay, Esq.

Broadway

A4 DBS

NO 4521 1994



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file

10 DOWNING STREET

From the Private Secretary

13 April, 1984

Dear Andrew,

Direct Broadcasting by Satellite (DBS)

The Prime Minister has considered your Secretary of State's minute of 12 April about DBS, together with the minutes on the same subject from the Home Secretary and the Chancellor of the Duchy.

The Prime Minister agrees very strongly with the views expressed by Lord Cockfield, and supports the modified proposal which he puts forward in the last paragraph of his minute (i.e. no entrenchment of the territorial franchises, and a shorter period of protection from competition). She hopes that your Secretary of State and the Home Secretary will find this line acceptable. If not, the Prime Minister would wish to hold a meeting as soon as practicable after Easter.

I am sending copies of this letter to the Private Secretaries to the recipients of your Secretary of State's minute.

*Yours sincerely
Andrew Turpin*

pp. DAVID BARCLAY

Andrew Lansley, Esq.,
Department of Trade and Industry

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CCJA
B
FROM: CHIEF SECRETARY
DATE: 12 April 1984

PRIME MINISTER

ms

per 208
1614
Prime Minister (2)

DIRECT BROADCASTING BY SATELLITE (DBS)

I welcome the opportunity of a collective discussion of Leon Brittan's minute of 30 March.

Arthur Cockfield has already pointed out the drawbacks of the terms which the BBC and independent companies are demanding as a condition of their participation in the UNISAT project.

The broadcasters' apparent reluctance to commit themselves suggests to me that we too should tread warily. If we cast ourselves too obviously in the role of demandeurs we will encourage potential participants not only to seek to dictate their own terms but also to attempt to saddle us with a share of the responsibility if this high-risk project fails or is aborted.

We need to ask ourselves too whether the potential benefits of UNISAT to UK industry are really so substantial and so assured as to justify us in buying the participation of the broadcasters at a price which seems bound to attract severe criticism from the public and from Parliamentary colleagues.

Copies of this minute go to all members of E(A) and H Committees and to Sir Robert Armstrong.

Paul Rees

PETER REES

(Approved by the Chief Secretary and signed in his absence)

Broadcasting Pt 4

DBS



12 APR 1984

COMMERCIAL

cell



Prime Minister (1)

Support for Mr Tebbit
from the Home Secretary.

Prime Minister

DIRECT BROADCASTING BY SATELLITE (DBS)

DBS
12/4

I fully agree with the views expressed by the Secretary of State for Trade and Industry in his minute of 12 April about DBS. I believe that to delay in reaching decisions until 1 May would seriously undermine the chances of success of the joint project.

MT

In the joint memorandum on DBS which we prepared, we recorded our conclusion that a collaborative venture represented the best hope of securing a good quality British DBS service in the late 1980s as well as avoiding the collapse of Unisat. We could not and cannot guarantee that such a venture would go ahead, but we are certain that it would not unless the Government did what it could to remove the obstacles. Our proposals offer advantages that no other projected scheme can offer. To attempt to distribute a DBS service by other means such as those apparently envisaged by News International would carry many technical uncertainties. Under existing technology, the coverage and quality of reception would be poorer; and the use of frequencies not specifically allotted to broadcasting would risk interference (because the frequencies would not be adequately protected from other uses) and mean using frequencies which have been allocated to use for other purposes.

Finally, I think that our proposals for participation by newcomers explained in paragraph 3 of Annex C of the joint memorandum are of crucial importance and have perhaps not been fully appreciated. The scheme that is proposed would give newcomers the opportunity to bid for a substantial share of the project and indeed such a share would specifically be reserved for newcomers.

/I hope

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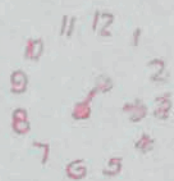
I hope therefore that you will be able to agree to the proposals in the joint memorandum of 30 March.

Copies of this minute go to Members of E(A) and H Committees, and to Sir Robert Armstrong.

L.B.

12 April 1954

12 APR 1984



MR. BARCLAY

DBS

We support Lord Cockfield's compromise proposals as our best hope of extracting the Government from a thoroughly unsatisfactory situation.

The Government's position has always been that DBS is a commercial venture in which the assessment of risks and rewards is a matter for the market place.

The proposed joint venture may be the best commercial solution but this should not be dependent upon damaging departures from our general approach to broadcasting and competition policies.

We do not accept that a three week delay is crucial to the project's survival. If it is, this demonstrates the high risks involved and the need for Government to be completely distanced from the enterprise.

✓ If the proposed joint venture were to collapse, we believe that alternative market solutions would emerge. We do not consider that the survival of Unisat is essential for the development of UK space technology.

We recommend that the essential elements of a compromise solution should be:

1. to grant no concessions on the re-advertising of ITV terrestrial franchises in 1989. A discretionary system would in practice be no different from a formal extension.

/ 2. to limit

2. to limit the life of the joint venture to seven years, the life of the satellite systems.
3. to ensure third party participation in the joint venture and suitable opportunities for independent programme makers.
4. to minimise the period of protection for the joint venture before the UK's two remaining DBS frequencies are made available to competing DBS services.
5. to make clear that the Government will in no circumstances underwrite the costs of either Unisat or the joint venture,

DLP.

David Pascall
Policy Unit

12 April 1984



Chancellor of the Duchy of Lancaster

PRIME MINISTER

THE DBS PROJECT

I am very perturbed about the way certain aspects of our policy on industry have been developing. My criticism of the terms proposed for the DBS project reflected this.

We came into Office convinced of the merits of the free market economy. We regarded competition as the spur to efficiency and innovation.

The forces of the free market and of competition offer no soft option. On the contrary they demand effort, hard work and frequently offer only an uncomfortable life. Compared with this the world of the Government glad hand has a certain superficial attraction. But all experience shows that progress is achieved down the path of competition: and that State interventionism leads only to uncompetitiveness and stagnation.

The argument that a venture will never get off the ground unless a monopoly is granted is the familiar argument advanced down the ages by all monopolists. But apart from exploitation of the consumer, it also frustrates new development by other people and hence removes from the monopolist himself the need and incentive to advance his technology, to improve his efficiency, to cut his costs. Nowhere are these effects likely to be more damaging than in the field of new technology.

The grant of a monopoly is a subsidy. It is paid not in cash but is taken surreptitiously out of the pockets of the people. Thus it escapes both scrutiny and control. But the price has to be paid and is paid.

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The BBC-Unisat venture was originally one in which Government was not directly involved. We have now been manoeuvred into a position where significant concessions are being demanded of Government. A Government guarantee will be the next demand, as the Trade and Industry Secretary recognises. He says that "such a guarantee should not be given". No doubt we can refuse now: but in a year to two's time we will be told that the venture will fail unless the Government do come up with the guarantee.

I can see no reason at all why the existing terrestrial franchises should be entrenched in the way proposed. To do so would be a major change in policy. To say as the joint Memorandum does that it is "unwelcome" surely is a massive understatement.

Moreover to offer a guarantee of exclusive privilege for a period as long as proposed - with the possibility of further extension - is as likely as not to cut us off from the prospect of other and more commercially viable development.

If the proposal to entrench the terrestrial franchises were dropped, and the period of exclusive privilege shortened so that other systems could come into the field without unreasonable delay - in short so that Unisat was given a head start but not a head and a length - I would regard this as a reasonable outcome of a very unsatisfactory situation.

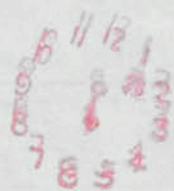
A.C.

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12 April 1984

cc Members of E(A)
Members of H
Sir Robert Armstrong

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PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE (DBS)

I understand that it has not proved possible to arrange a meeting to discuss the Home Secretary's memorandum of 30 March before 1 May. I have to say that I believe that we must reach a conclusion on the issues in the joint memorandum from the Home Secretary and me in advance of that date if we are not to run a substantial risk of the joint project failing.

2 Over two years ago the Government established as a policy for satellite broadcasting a national service using DBS frequencies under the aegis of the existing broadcasting authorities. The policy was to be implemented through a two-channel service provided by the BBC and somewhat later, two further channels by the IBA. Last Autumn the BBC-Unisat deal collapsed. Since then a new means of giving effect to our policy on DBS has been found, which continues to bring valuable industrial benefits to the UK through satellite and receiver manufacture. I am clear that at present there is no credible alternative means of giving effect to our policy. And if we wish to maintain our agreed policy, we must confirm before Easter to the participants that we will go

JH2ADA



ahead in the way set out in the Home Secretary's and my joint memorandum.

3 It is important to recognise that the project to launch DBS has suffered repeated delays, principally of course due to the collapse of the BBC/Unisat venture and the time taken (relatively short by comparison with the difficulties) in arriving at a new proposal. The launch of the satellite in 1987 is an integral part of the current proposal. Jeffrey Sterling who, as you know, has played a key part in enabling this proposal to be framed, has taken soundings on the timetable. On the basis of these, in relation to the critical path for satellite design and construction, chip design, and receiver manufacture, it is clear that a further delay of even 2-3 weeks may lose the chance of a 1987 launch.

4 It is the view of the satellite manufacturers involved in Unisat that, in addition, some form of Government guarantee will be needed to underwrite early development costs. Unisat have to get into top gear immediately to achieve a 1987 launch and will incur substantial costs before they have a contract with the prospective participants. These could amount to up to £85m by the end of the year. In view of the £50m costs they have already incurred arising from the failure of the BBC to proceed with the earlier proposal, I have a sympathy with their wish not to be left in a similar position.



5 But I am of the view that such a guarantee should not be given. This is a high-cost, and a high-risk venture.

Insofar as Government has to accept a price for securing its policy in relation to this, I believe that the terms of our memorandum are the furthest extent to which we should go.

But I view them as necessary to enable this project to have the chance to go ahead in the timescale proposed.

6 I hope that you will be able to agree to the proposals in the joint memorandum of 30 March before your visit to Portugal.

7 I am sending copies of this minute to members of E(A) and H Committee, and to Sir Robert Armstrong.

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12 April 1984

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(1)

PRIME MINISTER

Direct Broadcasting by Satellite

You will recall the proposals for a joint DBS project circulated by the Secretary of State for Trade and Industry and the Home Secretary on 30 March. In the light of Policy Unit doubts about these proposals, you agreed to hold a meeting with colleagues.

Because of Ministerial absences during the recess, it has not proved possible to arrange this meeting before 1 May.

The Industry Secretary has now written (Flag A) to say that it is essential in his view to decide before Easter whether the project can be approved. This, however, would mean steamrolling substantial objections to this project from Lord Cockfield (see his minutes, flagged B and C).

It is just possible that the Industry Secretary may accept the compromise reluctantly put forward by Lord Cockfield in the last paragraph of his latest note. This involves no entrenchment of existing ITV franchises, and a reduction in the period during which the DBS joint project would be protected from competition. But it is more likely that Mr. Tebbit will say that both these elements are essential ingredients of his package.

The options are:

- (i) Endorse the Home Office/DTI package as it stands, overriding Lord Cockfield's objections.
- (ii) Support Lord Cockfield's compromise, in the hope that it will be acceptable to DTI and the Home Office.

/(iii) Defer

- (iii) Defer a decision until a meeting can be held - this might be possible in the week after Easter if the Home Secretary is prepared to be represented by Mr. Hurd.

Policy Unit advice is at Flag D. Agree with them to support Lord Cockfield's compromise, and say that if agreement on it cannot be reached then a meeting will have to be held at the earliest available date after Easter?

Yes - I agree with Lord C. very
strongly .
mb

Duty Clerk

PP David Barclay

12 April 1984



10 DOWNING STREET

c: HMT ✓	CDL	DHSS
NIO ✓	D/M	CWO
D/N ✓	MAFF	Ld Denham
SO ✓	CS, HMT	CO
WO ✓	D/TPT	D Pascall
DOE ✓	LPO	
LPSO ✓	LCO	
DTI ✓	DES	

From the Private Secretary

5 April 1984

Direct Broadcasting by Satellite

30 March

The Prime Minister has been giving thought to the Home Secretary's minute of ~~13 January~~ about DBS, on which the Chancellor of the Duchy has now commented in his minute of 4 April.

The Prime Minister believes that it would be helpful to discuss the issues raised by the Home Secretary at a meeting with those Ministers most closely involved. We shall accordingly be making arrangements for a meeting as soon as diaries permit, with the Home Secretary, the Secretary of State for Trade and Industry, the Chancellor of the Duchy and the Chief Secretary.

I am sending copies of this letter to their Private Secretaries, and also for information to the Private Secretaries to the remaining members of E(A) and H Committees, and to Richard Hatfield (Cabinet Office).

(David Barclay)

Michael Gillespie Esq
Home Office

RW



Chancellor of the Duchy of Lancaster

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

Memorandum of 30 March from the Home Secretary

There are disquieting similarities between what is proposed in this Memorandum and what has been done in the Telecommunications Bill and which came in for so much criticism from our own supporters.

The argument is that progress is not possible in an expensive field of new technology unless you grant a monopoly to a favoured group of interested parties. Perhaps it might be said en passant that there is no evidence that the dramatic success of the Japanese in new technology in the field of electronics was based on the award of monopoly rights of this kind.

The present proposal might be thought to be especially questionable because the intention is to award the monopoly to the existing programme companies who are demanding further entrenchment of their existing rights as the price for taking on this new monopoly. All this again is very reminiscent of the way British Telecom was allowed to exploit to its own advantage the new opportunities claimed to be opened up by the Telecommunications Bill.

I am interested also that a potential competitor in the form of News International has emerged. This again has its parallels in the Telecommunications case. And here again the reaction appears to be the same - namely that the important thing is to see off the competition rather than find out whether it offers the consumer a better deal.

I am copying this minute to all members of E(A) and H Committees and to Sir Robert Armstrong.

A.C.

Broadcaster = des P4

15 FEB 1984

15 FEB 1984

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

3 April 1984

Dear Leon

DIRECT BROADCASTING BY SATELLITE (DBS): A JOINT PROJECT

I have seen your minute of 30 March to the Prime Minister and the memorandum in which you and Norman Tebbit set out your joint conclusions on a collaborative DBS project.

I am quite content with your proposals for announcing the general lines of the policy, but I feel bound to say that I think the amendments to the Cable and Broadcasting Bill will cause considerable difficulty.

I am sending copies of this letter to the Prime Minister, to members of E(A) and H Committees, and to Sir Robert Armstrong.

Yours truly
W. H. H.

The Rt Hon Leon Brittan QC MP

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Broadcasting: DBS. A4.

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MR TURNBULL

3 April 1984

AT&T

The restructuring of the US computing and communications sector allows IBM to compete in the US communications market and AT&T to enter the US and world data processing markets. As a result, a central AT&T objective is to re-establish overseas bases of operation to compete with IBM.

Over the last two years, AT&T have talked to a wide spectrum of UK electronic enterprises with a view to collaborating in a number of sectors. Despite a lot of talk, AT&T have not yet landed a firm contract.

We consider that AT&T could provide a global dimension to UK communication and computing activity, particularly as international competition is likely to be fought out increasingly between IBM plus associates and AT&T plus associates. The Japanese are likely to be in both camps. AT&T appear far more ready than IBM to transfer technologies and to accept local control of joint operations.

We understand that AT&T have now withdrawn their interest in Mercury but are actively considering closer relationships with both ICL and INMOS amongst others.

Last week ICL and AT&T signed a Memorandum of Understanding for the establishment of a joint venture in Value Added Network Services using international standards. These standards have recently been endorsed by the twelve major European computer and communications companies. AT&T's adoption of this European approach could significantly affect the future export performance of the UK IT industry.

AT&T are still interested in the INMOS factories in Wales and Colorado and are exploring whether our concerns about the design facility at Bristol can be met.

Conclusion

Closer relationships between AT&T and some of our electronic, computing and telecommunications companies is likely to give our

companies a better chance of succeeding in an increasingly competitive world market place.

We recommend that if the Prime Minister is drawn into discussion with Charles Brown, the Chairman of AT&T, she should express an interest in any specific proposals which AT&T may wish to make in so far as they apply to UK public sector investments and interests.

DLP.

DAVID PASCALL

PRIME MINISTER

Attached is a memorandum by the Home Secretary setting out his proposals (agreed with Mr. Tebbit) for the future of Direct Broadcasting by Satellite. Also attached is a minute by Policy Unit commenting on the Home Secretary's proposals. Policy Unit recommend that you should hold a meeting to review progress with DBS. We do not, however, think you need go this far, at least at this stage.

The Home Secretary's minute seeks comments from colleagues; do you agree he should be asked to take into account the Policy Unit's comments in this exercise?

TIM FLESHER

30 March, 1984

C.D.P.

MR FLESHER30 March 1984DBS

The development of DBS so far is a sorry story. Much as we applaud Jeffrey Sterling's efforts, the Government should never have become involved as deeply as it has.

We are now in danger of becoming locked into an expensive compromise which mainly benefits the existing players in the game. There is probably some justification in the general criticism that our concentration on the BBC, IBA, ITCA and particularly Unisat has excluded alternative options.

In these circumstances, we must resist granting concessions which may not be essential for a successful DBS project and which compromise our wish to see commercially based satellite broadcasting, independent of Government.

Extension of Franchises for the ITV Companies

We do not see the need to make any concessions in this area.

If the DBS joint venture is a free-standing entity, there should be no direct connection with terrestrial franchises. The equity commitment to DBS could be transferred at its market price.

If this does present an unacceptable degree of risk for the ITCA companies, we suggest that any new competitor for a terrestrial franchise should be obliged to accept the DBS commitment. This would ensure continuity of the project through 1989. As perhaps only one or two franchises would be changed anyway, the amount of upheaval in the DBS project would be minimal.

To go further and give the ITCA companies greater security for their terrestrial franchises would be to accept a greater Government commitment to DBS than our general policy warrants.

Third Party Involvement

We welcome the intention to allow non-ITCA private sector companies to participate in the joint venture. This is an important step in ensuring that third parties are given some opportunity to become involved in DBS at an early stage.

It will also be important to ensure that opportunities are open to independent programme makers to supply programmes to the joint venture.

Alternative Options

We are concerned whether alternative satellite options have been fully considered. There has been an understandable attempt to find a satisfactory solution involving Unisat. However, in view of the risks associated with this venture, commercial assessments must be overriding.

As the Budget proposals appear likely to increase the costs of Unisat significantly, we wish to see an assessment of alternative satellite options and financing packages such as Britsat.

We also require an analysis of the international implications and potential overseas competition particularly in view of the references to News International and to Irish proposals. We expect that there will be significant competition from alternative sources in Europe before 1987.

Finance

The proposals confirm that there will be no Government financial commitment to the project.

We understand that the BBC accept that there would not be recourse to the licence fee except in the event of a collapse of the project. In such a case, the Government would not meet the liabilities of the project.

We need to clarify that this also means that DBS expenditure would not be offset against the ITV levy. This would amount to indirect financing of the project and a transfer of risk to the Government.

Competition

Provided that satisfactory conclusions are reached on the above points, we consider that there could be a case for postponing competition between UK DBS services in the early years of the joint project.

However, this point should also be assessed in the context of the prospects for international DBS services received in the UK.

Conclusions

The DBS project raises difficult issues for our policies on satellite broadcasting and competition generally. In view of the reservations outlined above, we recommend that the Prime Minister holds a meeting to review the whole subject.

DLP.

DAVID PASCALL



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Prime Minister

DIRECT BROADCASTING BY SATELLITE (DBS): A JOINT PROJECT

.... In the attached memorandum the Secretary of State for Trade and Industry and I set out our joint conclusions on a collaborative DBS project, involving the BBC, IBA, ITV and other independent companies, as the best means of carrying forward a British DBS project. Subject to any comments that our colleagues may wish to offer (which it would be helpful to receive urgently, and if possible within the next week), I propose to announce the general lines of our policy either in the Second Reading Debate on the Cable and Broadcasting Bill or on some earlier occasion if that proves appropriate and feasible, and to put in hand the drafting of the required amendments to the Bill.

Norman Tebbit and I must make it clear that we cannot yet be sure that a collaborative project on the lines described in our memorandum would definitely go ahead if we made the necessary adjustments to broadcasting policy. It would certainly not go forward unless those adjustments are made. But there remain other hazards to be overcome. In particular, it will be difficult to secure agreement between the broadcasters and the UNISAT consortium in time to preserve the feasibility of a 1987 start date. Moreover, although good progress has been made, the broadcasters have still to be fully satisfied that the manufacturers are capable of providing receivers in sufficient quantities and at a low enough price to justify a 1987 start. But we believe that if we agree to play our part, and if we continue to make Jeffrey Sterling's good offices available, there is a reasonable prospect that the collaborative project will proceed.

Finally, colleagues should be aware that News International (the Rupert Murdoch company) have come forward very recently with a scheme of their own for providing satellite television. It is by no means an alternative to the DBS proposal before us. We have already resolved in favour of a national

/service

service using DBS frequencies within the framework of public service broadcasting and under the aegis of the existing broadcasting authorities. A scheme of the kind envisaged by News International, though it would not constitute a DBS service, could damage its prospects through the range of channels it would offer and the extent to which it might attract an audience through individual reception as well as cable diffusion. It is, in any case, not entirely clear whether the proposal is genuine or is mainly intended to undermine the collaborative project. The proposal seems on first examination to be impracticable for a number of technical and policy reasons. We are arranging for a more detailed examination to be carried out, however, to ensure that we are well prepared to deal with any continuing campaign that may be mounted after we have declared our backing for the collaborative project.

L.B.

30 March 1984

Copies of this minute are being sent to all members of E(A) and H Committees, and to Sir Robert Armstrong.

DIRECT BROADCASTING BY SATELLITE (DBS): A JOINT PROJECT

JOINT MEMORANDUM BY THE HOME SECRETARY AND SECRETARY OF STATE FOR TRADE AND INDUSTRY

In this memorandum we report to our colleagues the position reached in discussions with and between the BBC, IBA and Independent Television Companies Association (ITCA: the ITV contractors' association) regarding a possible collaborative DBS project, and invite their agreement to Government endorsement of it and to the inclusion in the Cable and Broadcasting Bill of the legislative provisions needed.

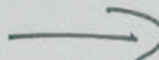
2. Our starting point is that a British DBS project is desirable and worth sustaining, in the interest of our space and electronics industries and as a development of a new means of broadcasting of significant long-term potential. The Government's original plan (see Annex A, which sets out the recent history) was to model our DBS structure on those for 'terrestrial' broadcasting: two of the UK's five DBS channels were assigned to the BBC, and (probably) two more would be assigned to the IBA for use under contractual arrangements of broadly the ITV type. But it has become increasingly clear that the initial phase of DBS will be a high-risk operation. Those closely concerned in the BBC and ITCA are persuaded that at this stage there is a real danger that competing channels would prevent any DBS service from thriving. It is now clear that the BBC would not go ahead with DBS except on the basis of sharing the risk in a collaborative project. If they withdrew, it would not be the end of DBS - there would still be the possibility of IBA contractor services; but it would mean a damaging delay, probably a fatal blow to Unisat (see Annex A) and a serious setback to our space and electronics industries.

3. Against this background we asked Mr Jeffrey Sterling, Special Adviser to the Secretary of State for Trade and Industry, to explore what were the best prospects for maintaining a British DBS project. He has held discussions with the broadcasters, the TV set manufacturers, and Unisat. He has found a good deal of common resolve among them and a willingness to combine their efforts to produce what is likely to be the first operational

DBS service with its own programming, at least in Europe. Annex B outlines the industrial advantages to the UK if the service can be launched in 1987. Mr Sterling has formed the judgment that this is a practical proposition, and indeed that combining the talents and experience of the existing companies is the only way to establish a British service in this timescale.

4. In these circumstances we are persuaded that the best hope of securing a good quality British DBS service in the late 1980's lies in a collaborative venture involving the BBC, IBA, ITCA and other independent companies. Annex C gives the Outline of the sort of project that has emerged from the discussions led by Mr Sterling and direct Ministerial discussion with the BBC, IBA and ITCA. In our view it is a project which the Government could support and commend to Parliament and public opinion. It involves some departure from earlier thinking, and acceptance of some features which we should not wish to see embodied in DBS arrangements in an ideal world, or for the longer term. Nevertheless they are in our view an acceptable price to pay for getting DBS going.

5. Particular aspects of the scheme which we think it right to draw to the attention of our colleagues are the following:

(i) The project would postpone for some years the prospect of competition between UK DBS services.  Part II of the Cable and Broadcasting Bill, which confers on the IBA powers to franchise DBS services which would compete with those of the BBC, would be enacted but placed in cold storage. The service however will be competing with other cable-borne services and with video. And all the evidence suggests that in early years the joint project, so far from bring a prosperous oligopoly, will have to work hard to win audiences and revenues. While therefore it needs to be made clear that the joint project is to have a limited life, with a more competitive environment ahead, we believe the approach proposed for the initial period is justified.

(ii) Some will see it as a defect of the project that the lion's share of the action goes to the BBC and ITV

companies. They are, however, the organisations with relevant expertise. On any analysis, the BBC would be one DBS broadcaster, and the ITV companies would be strong contenders for contracts granted by the IBA under the powers in Part II of the Bill. However we have judged it important, and have insisted in discussions with the BBC and ITCA, that a place should be left open in the joint project for non-ITCA companies (see Outline, para 3). If these proposals are approved the Home Secretary will urgently seek the IBA's assistance in inviting applications from non-ITCA interests.

- (iii) Advertisers while welcoming an additional outlet for TV advertising will be concerned that it has not been taken out of the hands of the ITV grouping, of whose charges and practices they are critical. However, the ITCA companies will have only a share in the joint company. Advertising will play little part in the early stages of the project while audiences are small, but could contribute to its health in its later stages. (A subscription will be the method of financing in the first phase.)
- (iv) The need to relieve the ITV companies of the obligation to compete for new contracts in 1989 (Outline, para 12) is unwelcome. But we are persuaded that, without some relief, they would and could not participate in the joint project. The relief that does least violence to the pattern of IBA competitive franchising is to make re-advertisement of contracts discretionary in the IBA, instead of mandatory, for 1989 only, thus preserving the general structure and leaving the IBA with control over companies whose performance falls below standard.
- (v) Late-stage additions to the Cable and Broadcasting Bill will be needed to give effect to (iv) above and to create the necessary joint broadcasting body (Outline, para 6). Our aim is to create as unobtrusive a body as possible; but the legislative provision is bound to be substantial.

These changes ought if at all possible to be introduced at Committee Stage in the Commons.

Even with the above conditions satisfied, there cannot be certainty that the service will get under way. The BBC and ITCA have expressed their general commitment to the project; and the IBA, despite earlier misgivings have said that they are willing to co-operate. But ITCA has made it plain that the ITV companies will need some months before each can make a formal commitment (the same would be true of non-ITCA participants), and there could be some drawing back before then. Unisat are willing to do business with the joint project; but contracts are still some way from being signed. Cost and availability of sets (Outline, paras 9 and 10) could still hamper take-up of the service. And the costs confronting the joint project are high (Outline, para 8).

6. These risks and uncertainties are not primarily the concern of Government. Our role - which we commend to our colleagues - is to give the project a fair wind by creating the opportunity in policy and legislative terms, on the lines proposed above. We cannot be sure that, even with that support, the project will go ahead. However it is clear that it cannot go ahead unless the Government plays its part.

7. An early decision is needed because the Government's intentions regarding changes in the law need to be signalled when the Cable and Broadcasting Bill receives its Commons Second Reading - which is likely to be shortly before or shortly after Easter.

8. We therefore invite our colleagues -

- (1) to agree to the project going ahead on the basis set out above; we would expect to continue to use Mr Sterling's good offices to promote it;
- (2) to authorise the Home Secretary, on Second Reading of the Bill, to announce the Government's general approach and specific intention to add to the Bill provisions for a joint DBS broadcasting body and modifications of the ITV contract advertisement procedures.



30 Nov 1944



To Have Sec
to PM
30.3.84

DBS: THE BACKGROUND

The then Home Secretary announced in March 1982 the Government's decision, primarily for industrial reasons (though broadcasting considerations were also a consideration), to make a start with direct broadcasting by satellite (DBS): The BBC would provide a 2-channel service and a satellite system would be provided by Unisat, a consortium of British Aerospace, GEC-Marconi and BT whose formation for the purpose the DOI had encouraged. The object was to have a service in operation in Autumn 1986. At the same time the Government indicated its hope that there would also be independent commercial DBS channels; subsequently a policy was agreed for enabling the IBA to provide DBS, and legislation to give effect to it is included in Part II of the Cable and Broadcasting Bill which is now before Parliament.

2. From March 1982 Unisat worked on the satellite system, and the BBC on programming and other aspects of the service, and the two sides negotiated on the details of contracts. These negotiations proved difficult and protracted; Heads of Agreement were signed in March 1983, but contracts have not yet been signed. The major problem has been BBC uncertainty over the commercial viability of DBS on the basis proposed, as the shape of likely competition from cable has become clearer. The lack of a common European transmission standard for DBS has been another factor.

3. In the Summer of 1983 the present Home Secretary and the new Chairman of the BBC, Mr Stuart Young, agreed that it would be desirable for the BBC to seek a commercial partner with whom to share the financial risks. During the Autumn the BBC engaged in confidential discussions to this end with Thorn-EMI, who finally concluded that the proposition in the form put to them by the BBC did not offer a sufficiently attractive commercial prospect.

4. Despite that disappointment it remained the object of the BBC to stay in DBS, using the Unisat project, if possible. They therefore opened discussions with the IBA and, subsequently, the Independent Television Companies Association (association of the ITV companies) to see whether a basis existed for a collaborative project. Meanwhile Unisat expressed growing concern that while their financial commitment to the project stood at around £50m and continued to grow, they were still without a contracted customer for the project.

5. In this situation Ministers asked Mr Jeffrey Sterling, Special Adviser to the Secretary of State for Trade and Industry, to use his good offices to explore with all parties concerned whether there were ways of keeping the project in being. Unisat were dissuaded from immediately terminating the project, though they have subsequently announced its suspension, on a basis that would make its re-activation possible provided the period of suspension is not prlonged. Against this background the

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broadcasting interests have discussed, under the aegis
of Mr Sterling, a possible joint venture.

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INDUSTRIAL BENEFIT OF DBS SERVICE STARTING IN 1987

This note examines the potential benefits to UK industry which would flow from a 1987 start to DBS. These are in four main areas: satellites, consumer electronics, film and TV programme contractors, and cable.

Satellites and Ground Segment

2. The UK has established itself as the leader in Europe in communication satellites, mainly through British Aerospace (BAe) and GEC-Marconi, who manufacture satellites, and companies such as Logica which have developed a corresponding expertise in software. The industry estimates potential sales of £2,900m (1983 prices) in the period to the year 2000 providing it can now through investment and higher throughput raise its productive efficiency to that of the US majors. Competition for satellites for international agencies (Intelsat, Inmarsat and European Space Agency) depends on international co-operation and both BAe and Marconi have strong relationships with US and European partners, and in some cases they both lead for their partners. However, to establish their standing for overseas sales they will also need domestic success in projects such as defence communications, where they are providing two Skynet IV satellites, and in DBS. The DBS satellite bid represents about £120m of business in the short term for BAe and Marconi, with substantial overseas sales potential for both companies, either in partnership in Unisat or independently.

3. It would be possible for DBS to be provided by satellites bought from the US, which might be marginally cheaper since their R&D costs will have been written off against NASA or Department of Defence contracts. Suggestions that such satellites could have substantial UK content through sub-contracting fail to take account of the fact that unless BAe and Marconi can establish their lead potential on contracts for satellites they will simply become dependent on the goodwill of US prime contractors for their international sales. Furthermore the satellite cost of Unisat represents only a small part of the total monthly cost of the DBS service to the subscriber, so a marginal reduction in satellite cost is not likely to be significant in the success of DBS.

4. The low-power satellite telecommunication capacity on the Unisats is also important for developing a UK capability in small-dish terminals for business services, for TV distribution to cable etc.

Consumer Electronics

5. British manufacturers of colour television receiving equipment see a notable opportunity in DBS which involves a technology in which they have a well-established and useful expertise. They have welcomed the Government's decision to endorse the C-MAC/packet sound transmission system recommended by the European Broadcasting Union (EBU) not only because it is technically advanced but because it has considerable development potential with profitable implications not only in Europe but further afield.

6. The British colour TV set industry has been able to survive the influx of cheap sets from Japan and other Far Eastern suppliers by producing better quality control and new and sophisticated technology (eg teletext and viewdata), reducing the complexity of chassis design and the number of components to derive more benefit from automatic insertion techniques, establishing voluntary restrictive agreements with manufacturers from countries such as Japan, Taiwan, Singapore and Korea, relying on the protection afforded by the PAL patents and preserving the rental market which accounts for 50% of all domestic colour TV sets.

7. Further reductions in production costs are increasingly difficult to achieve, voluntary restrictive agreements are increasingly difficult to maintain, the PAL patents will expire over the next two or three years and reliance on the rental trade is less certain as higher quality reduces the incidence of receiver breakdowns. Manufacturers therefore urgently need the stimulus of the new technology afforded by the MAC system (developed by the IBA) in order to establish an early lead over their competitors in the production of the next generation of receivers.

8. UK set and integrated circuit manufacturers were disappointed by the abandonment of the BBC's plans to begin a DBS service in September 1986. Now that HMG has reaffirmed its commitment to the C-MAC/packet sound transmission system, they are ready to begin work on the detailed design of the necessary integrated circuits. Work is already in hand with the broadcasters to make crucial decisions on the encryption method to be employed, and it is proposed to introduce this without waiting for the agreement of the

EBU though it is hoped that they will follow suit. The manufacturers fear that delay until 1988 will enable European and Far Eastern competition to catch up on the development of C-MAC receiving equipment and put at risk the technological lead which they hope to establish as the PAL patents expire. If the DBS programme slips a further year they can be expected to resort to the familiar temporary expedient of relying on protectionist measures such as tariffs, quotas and restraint agreements to counter the threat from the Far East.

Film and TV Programme Contractors

9. DBS will provide a need for programme material costing £100m pa for three new channels, including a new film channel. This will be both a challenge and an opportunity for the programme makers, and in particular the UK film industry (although the economics of DBS are such that feature films are unlikely to be made for that medium alone.) The reputation of the UK broadcasters and film makers stands high at present and DBS will provide an important market not only for the existing TV programme companies but also for the newer film companies, Goldcrest, Virgin etc, whose successes in films such as Chariots of Fire and Gandhi have established their international reputation. Again this is both a domestic as well as export market.

Cable

10. DBS, even though it has the advantage of providing national reception for its services from day one, is basically a one-way delivery system for programmes (entertainment or otherwise) and as such is in competition with existing terrestrial TV transmissions,

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video tape recorders and cable systems. Unlike cable it lacks
any capability for interactive services (home shopping, office
working, telebanking etc) but it can achieve universal coverage
and avoid the interference problems and lack of spectrum
availability inherent in terrestrial programmes. It will be both
complementary to and in competition with cable - DBS can ensure the
immediate reception of new programmes in rural areas where the
spread of cable will necessarily be slow but it will compete with
cable as a delivery system in urban areas. The requirement that
new broad band cable systems must carry DBS programmes will offer
the prospect of indirect subscribers in cabled areas who will benefit
from DBS without incurring the costs of a dish receiver and a
conversion set. It is expected to be ten years before cable systems
pass even 50% of urban homes.

Department of Trade and Industry
March 1984

CONFIDENTIAL

OUTLINE OF POSSIBLE JOINT DBS PROJECT

The object of a joint DBS project would be to exploit space technology for broadcasting, using the Unisat project already being developed for the BBC, and to bring together the resources and skills of the BBC and (in particular) other broadcasters, so that the risk inherent in the early stages of DBS was spread and the danger of competing services ruining one another averted.

2. The project would use the Unisat system (on terms that would have to be re-negotiated to fit the changed circumstances). Its lifespan would equate with the assured life of the initial satellite system - i.e. 7 years from the start of DBS programmes - with the possibility of limited extension by Order. Such a period is likely to be needed to bring the project to a profitable level.

3. Participation in the project would be by way of a joint company. The participants would be: the BBC; those ITCA companies who wished to participate; and other participants for whose selection the Home Secretary would look primarily to the IBA for help; the Home Secretary would have the formal role (under powers to be taken in the Bill) of designating the composition of the company. The non-ITCA participants might make a purely financial contribution to the venture; or they might bring manufacturing and retailing skills; or they might add to the production capacity of the BBC and ITCA. The BBC would have to be given some say in who participated as their partners.

4. The BBC's share of the joint company would be 50 per cent. The other 50 per cent would be shared between ITCA (most if not all of whose members are reported to be keen to take part) and other participants (assuming that suitable applicants came forward).

5. The joint company's function would be to provide the programmes for the service, from the resources of the participants or by purchase, commissioning etc. There would be three channels. One of these would be a premium film channel. The other two would be programmed (through the joint company) either one by the BBC and the other by the independent side, or with mixed programming from those (and possibly other) sources. The company would be wholly responsible for the provision of the satellite and all related costs.

6. In order to assimilate the joint project into the normal framework of broadcasting accountability, there would need to be a joint BBC/IBA body responsible for providing and supervising the joint company's output. The joint body would be composed equally of BBC Governors and IBA Members, with a rotating chairmanship. Legislation (in the Cable Bill) would be needed to create this joint body and to confer on it the necessary powers and duties. The object would be to create the minimum of machinery. The joint body's resources would come from the joint programme company.

7. The joint service would be funded principally by a single subscription, likely to be of the order of £8-10 per month.

Arrangements for collection would be the responsibility of the joint company (and, as regards reception via cable, the amount would require negotiation with cable operators). Additionally, the regulatory authority would be empowered to permit advertising if and when it considered this justified.

8. Costs incurred by the joint company would be of two main kinds: rental payments for the satellite system provided by Unisat; and programme costs. Satellite rental costs would be of the order of £200m over a 7-year period, representing an annual rental of about £27m for a 3-channel service. Programme costs are more adjustable, and to some extent would be related to the number of viewers (because of the way in which film rights are paid for): they might be of the order of £50m pa initially, rising to over £100m pa. At this level of cost there would be a substantial negative cash flow in the early years - reaching a cumulative total after 5 years of £170m in the best case and £290m in the worst. A 'break-even' point would not be reached until there were 2m subscribers. From that point the financial health of the project should show a steady improvement. There would be no direct Government assistance. The BBC's expenditure, until it came to be matched by receipts, would be financed by borrowing on the open market, within the extended borrowing powers (up to £150m, or £225m with the Home Secretary's approval) conferred on it for the purpose last year. There would not be recourse to licence fee revenue except in a situation where the project had failed, and the BBC had no other ultimate source of funds to meet its liabilities.

9. The DBS subscriber would also have to equip himself with receiving equipment (for individual reception; the position of the cable subscriber would be different). Likely set costs have been the subject of prolonged discussion which cannot at this stage be conclusive: the best current estimate is that the cost to the individual subscriber of the equipment needed (including installation) would be around £420, representing a monthly rental of about £13 including VAT, but excluding the cost of installation.

10. The aim is to start the service in Autumn 1987 (not 1986 as earlier intended). Provided early and firm decisions are now reached by the BBC and other participants, it is thought that the Unisat system can be available by then. The availability of receiving equipment is also crucial: the manufacturers are confident that, provided early decisions are reached on outstanding matters of specification including encryption (where we are in the hands of the broadcasters), they can have an adequate supply of sets available in time for an Autumn 1987 launch.

11. Because of the high-risk character of the project, and the timescale before the break-even point, the BBC and ITCA attach importance to there being no competition for audiences and revenue from any other UK DBS service, on the two remaining frequencies internationally allocated to the UK (the prospect of competition from an Irish service, readily receivable in most parts of this country, can of course not be ruled out). The broadcasters' view is that that protection ought to last for the full proposed

life of the project (see (2) above). There may well be criticism from other would-be DBS broadcasters, and from elsewhere, of an arrangement that confines DBS to the joint project for such a substantial period. As a partial answer to that criticism, while guaranteeing protection to the project in its early years, the Government would make clear its readiness to consider bringing Part II of the Cable and Broadcasting Bill into effect during the life of the joint project, and in the light of the project's progress towards profitability, but not until there had been 5 years of joint project programming. This would mean that the IBA would then be able to advertise a contract or contracts for one or both the remaining DBS channels. The time needed for a contractor to be selected and to make arrangements for a satellite system could mean that no competing service was actually in operation until the life of the joint project had expired or was close to expiry.

12. The present "terrestrial" contracts of the ITV companies last for 8 years from the beginning of 1982; expiring at the end of 1989. The IBA is required by section 19(4) of the Broadcasting Act to re-advertise the contracts, a process that begins many months before the expiry date and involves companies seeking a renewal of their contract in detailed preparation of their case. The ITV companies have strongly represented that without some relief from the need to prepare a case for renewal, and the risk of being without a terrestrial contract after 1989, they and their shareholders could not commit themselves to the scale and risk of investment which the

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DBS project would require. The relief sought could be given in one of a number of ways. The preference of Ministers is to revert, for the 1989 contract renewal proceed only, to the pre-1980 procedure, under which the IBA if satisfied about a company's performance may renew its contract without re-advertisement, though it retains a discretion to do so. Although this procedure would not wholly remove the companies' uncertainty, they say that it would give them sufficient confidence and reassurance. The IBA would still have to impose changes on the structure of the companies, as it has now, without readvertising the contracts. An amendment to the present law will be required in the current Bill; it would take effect only if the joint project went ahead.

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The IBA will still have to agree changes in to structure of the

*companies, and ensure, with
regard to contracts.*

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10 DOWNING STREET -

From the Private Secretary

30 March 1984

The Prime Minister has asked me to reply to your letter of 12 March about your proposals for a DBS satellite system as an alternative to the Unisat proposal.

As you know the broadcasting authorities are discussing their proposals for a DBS service and are consulting the Government about the implications of their proposals for the legislation covering broadcasting policy. The Prime Minister has noted the situation reached by Britsat and she understands that you have informed the BBC and IBA.

David Barclay

J. G. Anderson, Esq.



JF6224

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

30 March 1984

CONFIDENTIAL

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

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pse typ
A DB sign

Dear David,

MR J G ANDERSON: DIRECT BROADCASTING BY SATELLITE IN THE UK

In agreement with the Home Office I am responding to your request of 13 March to Michael Gillespie for advice on Mr Anderson of Britsat's approach of 12 March to the Prime Minister. Officials in this Department recently had a presentation by Mr Anderson of the Britsat proposals.

2 Mr Anderson represents US satellite manufacturing interests. He seeks to denigrate and misrepresent the proposals of the United Satellites Ltd (USL) consortium of GEC-Marconi, British Aerospace and British Telecom which the BBC had selected to provide a DBS satellite. In fact the leasing cost of satellites in DBS were not a major factor in the BBC's conclusion at the end of last year that they should have discussions with independent television on the feasibility of an initial joint service - the programme and TV set costs are much more substantial. Nor have any problems in the delivery of the Unisats been a factor in the BBC's decision to delay: USL had agreed penalty clauses if they did not have the satellites ready for the BBC's use by September 1986. Mr Anderson's attack on the technical abilities of BAe and GEC-Marconi is also unjustified. Through BAe and Marconi the UK leads in Europe in telecommunications satellites and the major technological step in the Unisat pay-load, the high-powered DBS channels, is to Marconi's design and manufacture. Much else could equally be rebutted.

3 Ministers' position on the procurement of the satellite system has been that this had to be privately funded (as the USL proposal) and that they wished to encourage this procurement to be from the UK space industry. GEC and

/British ...



British Aerospace representing all the UK's satellite capability came together for this purpose with British Telecom and the resulting consortium was prepared with a view also to tackling overseas markets. In these circumstances Ministers took the view that they could validly encourage discussions between the BBC and the USL consortium but not more. The procurement decision had in the end to be for the BBC and in fact with the advice of leading US satellite consultants on the price and performance they should demand, the Corporation negotiated heads of agreement which both sides found acceptable. Obviously on industrial policy grounds a solution which results in the UK industry priming and designing the satellites is capable of leading to overseas sales in a way which undertaking some tasks to the specification of a US prime, as proposed by Britsat, is not.

4 Contrary to what Mr Anderson says, and obviously providing the present delays are not too long, USL are ready to pick up again at short notice on the manufacture of the satellites and they can also offer a lower per channel price for the three-channel service now being discussed between the BBC and independent television. The alternative would not however be to accept unilateral negotiations with Anderson and his American backers but to encourage an open tender action in which British firms could compete either alone or in collaboration with overseas partners of their choice.

5 I suggest accordingly a neutral reply on the lines of the attached draft. I am copying this letter to Michael Gillespie at the Home Office.

Yours ever,
A. Lansley

ANDREW LANSLEY
Private Secretary

Encl

CONFIDENTIAL

Mr J G Anderson
Managing Director
Britsat
Airwork House
35 Piccadilly
Suites 101-110
LONDON
W1V 9PB

The Prime Minister has asked me to reply to your letter of 12 March about your proposals for a DBS satellite system as an alternative to the Unisat proposal.

As you know the broadcasting authorities are discussing their proposals for a DBS service and are consulting the Government about the implications of their proposals for the legislation covering broadcasting policy. The Prime Minister has noted the situation reached by Britsat and she understands that you have informed the BBC and IBA.

David Barclay
PS/Prime Minister

cc PS/Home Secretary
PS/Secretary of State for
Trade and Industry

Broadway = HBS PT 4

30 MAR 1984



Prime Minister ⁴
Helpful background
to the DBS/Cable/Telecom
debates.

27 March 1984
Policy Unit

PRIME MINISTER

BROADCASTING, NARROWCASTING, COMPUTERS AND TELEPHONES

Over the next few months, you are going to hear a lot about satellite TV, the regime for BT, the problems of Mercury and the future of ICL and INMOS. I thought it might be helpful for you to have a brief aide memoire setting out the interconnections and the problems.

Converging Technologies

There are now around 8 different strands of technical development and policy with considerable overlap. They are reviewed below:

1. Cable television. A system for sending several broadcast channels through a cable to subscribers who receive it through their ordinary television set, paying a fee to the cable transmitter. The system requires a set, programme providers, and a cable franchisee. Up to 40 channels of service are offered. There are already 11 cable franchises granted, and services begin in a matter of months.
2. DBS. Satellite broadcasting is a partial competitor of cable. It will relay 5-channel broadcasts to the individual television set with national coverage via a satellite dish receiver in the recipient's house. A decoder is also required. The customer pays the satellite company and the equipment providers for receiving the service. There is again the need for programme providers and the technical provision of the satellite services and related equipment.
3. Video cassette recording and video disks. VCRs have already achieved considerable market penetration, and in the early stages of the competition have seen off the video disk. People mainly use VCRs for shifting their times for viewing TV programmes, and as a means of enjoying home movies by hiring cassettes. The video disk provides a television picture and a sound channel, mainly concentrating on popular music, but has lost out because it does not also have a recording facility. This is shortly going to be remedied. Video has revolutionised the pop industry, and now each major pop music release is

accompanied by a pop video. The home video is a competitor of both cable and DBS in so far as they are all supplying popular music and home movies. In other ways they are complementary.

4. BBC and ITV. Conventional television transmission through 4 channels, which has now achieved 97 per cent penetration of all UK households. Purchase of the basic television is being extended by the addition of teletext services for information provision. There will be an increasing tendency for the television to become part of an interactive system in the home, receiving messages in and, linked to the telephone or cable, sending messages out to buy theatre tickets, make reservations in hotels and book train and plane seats, etc.
5. Interactive cable systems. A logical development of the cable system is to use it to link telephone, television and commercial establishments outside the home. There are powers under existing legislation for interactive cable, but BT and/or Mercury have to be involved if it is used to transmit telephone conversations.
6. Cellular radio phones. Licences have already been granted to enable mobile phone systems for home, travel and commercial use to route messages around the country through a series of linked local transmitters sending the messages in the form of radio waves.
7. Conventional telephone systems operated by BT and Mercury. These are in direct competition with cellular radio phones, and will be in partial competition with interactive cable systems when they get off the ground.
8. Computer technology. All developments in telecoms now hinge upon the successful application of micro-processor technology. The development of more computer services produces a need to transmit computerised data between different users. In due course this will include the home as well as the business. Things like computerised medical records, bank account statistics, and shopping details will all flow along phone

lines or cables linking phones, TVs, home and business computers. The future of domestic chip production, of domestic conventional computer manufacture, and the convergence of telecoms and computer technology is therefore a live issue.

The Next Decisions

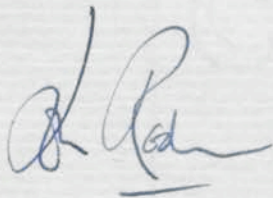
These can, for the sake of succinctness, be grouped into 4 broad issues.

1. What should the competitive regime for BT look like? Some of the decisions have already been taken. Interactive cable competition in voice telephony is allowed on a limited scale by the current regime. Cellular radio phone is being given a reasonable head. The next decisions will be about price controls on BT monopoly services, about strengthening Mercury as a competitive force, and about the financial details of the BT flotation.
2. What framework, if any, should the Government set for satellite transmission? There is a battle under way between Unisat - based on a consortium of ITV and BBC companies; and Britsat - an independent operation which will sell programming space to any of the companies capable of buying it. It seems likely that the Government will want to make more encouraging noises about the desirability of satellite, but there will be problems in resolving the dilemma between Britsat and Unisat. It will be important to examine how much competition there is in programming for the satellite capacity, and whether there are any financial risks for taxpayers.
3. What should be the future of the regulatory and cash framework for BBC and ITV? We believe that the ITV lobbies for a relaxation of their franchise terms to accommodate their investment in new technology should be resisted. There is, however, a case for looking at the basis of the franchise competition as many subjective judgments have to be made. Having all the franchises up for redistribution at the same time is somewhat cumbersome.

There are more fundamental questions to be raised with respect to the BBC. Some people are sceptical about the longevity of the BBC licence fee as a mechanism for funding the Corporation. Thinking should now be under way as to whether a new kind of funding is required in the medium term and, if so, what that might be. Judgments on this will be influenced to a great extent by the developments in cable, satellite and other entertainment mechanisms which will squeeze BBC's effective market share quite considerably.

4. The computer industry. Questions will be arising shortly over whether BT should buy ICL or IBM equipment; whether in the medium term BT might take over some computer manufacturer; what the future of INMOS should be; and whether there is any attraction in the UK teaming up with AT&T (with guarantees for UK content and jobs) in an effort to prevent IBM world dominance. BT will raise the question of a joint venture with IBM on value-added network services.

David Pascall is deeply involved in all these issues, and will keep you posted.



JOHN REDWOOD

CC DP

pa
Dms
19/3

Prime Minister (2)

To note that Sir Antony Part
will be retiring from the
DBS scene (amicably).



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

Dms
16/3

15 March 1984

2 Sir Antony,

mf

Thank you for your letter of 7 March.

We are most grateful to you for all the time and effort which you have devoted to the question of DBS transmission standards since my predecessor invited you to chair the advisory panel in July 1982. Many uncertainties about DBS remain but, for the reasons you give, I agree that this might be a suitable moment for us to consider you discharged from the commission which you so kindly accepted from us and which you have carried out with such commitment.

2 copies
Len B...

Sir Antony Part, GCB., MBE.



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

7 March 1984

The Rt Hon Leon Brittan QC MP
The Home Office
50 Queen Anne's Gate
LONDON SW1H 9AT

From Home Secretary,

Direct Broadcasting by Satellite

Now that the Government have reaffirmed the C-MAC Packet system as the transmission standard for DBS in the United Kingdom, and that relationships on this subject with Europe do not seem likely to require in the near future special representation of a kind not available within the Government itself, I believe that this may be a suitable moment for me to retire from the DBS scene.

There are also my business colleagues at Orion and elsewhere to be considered. They have shown great forbearance over the last eighteen months, but there must be a limit to their tolerance. So, although this consideration is not conclusive, it represents an additional reason why it is, perhaps, appropriate for me to bow out at this juncture.

If you agree with this proposal I shall, of course, need to notify and thank those who have been in close contact with me. But I suggest that no statement should be volunteered to the media either by the Government or by me.

I hope that DBS will come to successful fruition. It will require all the skill, energy and close co-ordination that everyone concerned can bring to bear.

Copies of this letter go to the Lord President of the Council, the Foreign Secretary and the Secretary of State for Trade & Industry.

Yours sincerely,
Antony Part

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith, Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)

16 MAR 1984

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J.G. ANDERSON

27/3

CF. Papers.

ae DAVID PASCAL

file

BTC



10 DOWNING STREET

From the Private Secretary

13 March 1984

I enclose a copy of correspondence the Prime Minister has received from Mr. J.G. Anderson, Managing Director of Britsat, Airwork House, 35 Piccadilly, London.

I should be glad if you could let me have a suitable draft Private Secretary reply to send to Mr. Anderson, to reach me by 27 March. I am copying this letter and enclosure to Andrew Lansley (Department of Trade and Industry).

(David Barclay)

Michael Gillespie, Esq.,
Home Office

A handwritten signature, likely of David Barclay, consisting of a stylized 'D' and 'B'.

COMMERCIAL IN CONFIDENCE

Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
London S W 1

12 March 1984

We understand that the Press have been advised over recent weeks that you are taking a close interest in the decisions affecting Britain's path towards Direct Broadcasting by Satellite.

We wrote to you on 29 September last to advise you that planning was under way for a substitute project to Unisat. A copy of that letter is enclosed for reference.

Unisat as a project has now effectively failed. Engineering teams are being disbanded, sub-contractors stood down, and we have just learned that the Managing Director of Unisat is likely to be assigned to another project. The project was technically unsound, was being farmed out to subcontractors all over the world, and was uneconomic for DBS channel users such as the BBC or ITCA members. Worse, as a national 'prestige' project it contained huge inherent losses, some one hundred million pounds on the original 1981 cost base and probably two hundred million pounds if it could ever be re-started, with obvious implications for the Exchequer.

In spite of official protestations to the contrary, from all our soundings it is clear that strenuous efforts are still being made to re-float Unisat, which was put together by the DTI in the first instance and then foisted on the BBC in 1982.

There are a series of technical, commercial and financial reasons why Unisat could not fly before 1988/89, if ever. In spite of these problems, we are concerned that (as with Mercury) ranks will close around Unisat to defend and promote it against any competition, whatever the commercial realities of that project.

We have taken a completely different path to Unisat, based on a recognition that the technology of high-power DBS is beyond the UK's capability - witness the sub-contracting of all Unisat's transponder work to North America. We have instead put the

market requirements first and foremost. We now have complete plans for a much larger multi-channel DBS system, able to handle all the ten DBS channels allocated to the UK and Eire and offering very sharp price advantages to channel users. The plans are based on fixed-price contractual offers for all aspects of system procurement, together with detailed arrangements for project financing in the City of London and for operation of the system through to 1997. We could still just manage a 1986 launch, and could manage 1987 comfortably.

As we intended when we wrote to you last September, our plans offer :

- deliberate avoidance of technical and schedule risk for the broadcasters and for manufacturers of customer reception equipment
- economies of scale to be shared with the broadcasters
- a lower-cost and sharply lower-risk path to DBS
- private-sector financing, letting the City get into the financing of commercial space projects for the first time
- British ownership and management of the satellite operating company
- no internal losses and hence no loss of tax revenue - instead the prospect of profitable operations and sizeable payments of Corporation Tax
- technology transfer, and a higher proportion of UK content than applied with Unisat
- a strong chance of collaboration with Eire on DBS (RTE have welcomed our plans) and further prospects for a follow-through Anglo-Irish telecoms system
- the first commercial DBS system in Europe

There have been two other private-sector satellite initiatives in the last 18 months. The first, involving Morgan Grenfell, was sidetracked by the DTI into fruitless negotiations with Mercury. At no stage were Morgan Grenfell and the others involved with the project even able to present the project proposals to DTI Ministers. That project has lapsed - the markets, technology and finance were available, but licensing difficulties (and Unisat) stood in the way. The Americans are now far ahead on plans for similar systems, and it is doubtful whether the UK could ever catch up. The second project, involving re-deployment of an existing satellite system to provide extremely low-cost communications for much of Africa, failed to find favour against existing DTI plans to fund the aerospace industry to join a French project. The French project has since lapsed, but the UK has missed its window to promote a more cost-effective system.

There are major issues of principle involved in the DBS area :

- do the Government or the broadcasters truly believe that any UK oligopoly can be exercised over customer choice of DBS services, when the technology by definition transcends nation-state boundaries ? Other European nations (including Eire) will be able to beam DBS to the UK long before Unisat could ever fly
- is space policy (after so many years of state subsidy) still to be largely dictated by the narrow interests of the aerospace companies rather than by the interests of the broadcasters and the potential mass consumer market?
- in satellite communications, as in other areas of telecommunications, does the Government believe that Whitehall-inspired schemes should always take precedence over entrepreneurial and risk-capital initiatives?
- does the Government want Britain in space before the next election or not - with all that this could mean for employment in manufacturing, installing and servicing customer reception equipment all over the country?

As a measure of the technical soundness of our project, we have available insurance for the life of the system more than twice as long as for any other system in the world. Although we have been unable to negotiate directly with the BBC owing to the continued existence of Heads of Agreement with Unisat, we know that our system matches exactly the performance requirements of the BBC for high-power satellite broadcasting.

We believe that our project now offers the only realistic route for Britain's entry into commercial space operations. Accordingly, all we seek is that the broadcasters should be released from the explicit or implicit pressures from Government to 'fly Unisat' at whatever costs to themselves and to wider UK employment and tax revenue interests.

We would welcome an early meeting with Home Office and DTI Ministers, or initially with Mr Jeffrey Sterling, to discuss all these issues before policy goes firm.

Yours faithfully,

T. G. Anderson

J G Anderson
Managing Director



Pa
Dms
6/3

10 DOWNING STREET

Prime Minister

I am not sure
whether you had
time to look at
this over the
weekend.

Dms
5/3

CONFIDENTIAL

1 March 1984

MR TURNBULL

Prime Minister (2)

CABLE AND SATELLITE BROADCASTING

An encouraging report, especially on cable television.

I attended the Financial Times Conference on "Cable Television and Satellite Broadcasting" this week.

DMS
2/3

Cable

I was greatly encouraged by the enthusiasm and activity shown by cable operators, programme providers, equipment manufacturers and advertisers in response to our policy on cable. Although there are many problems still to be resolved, the general feeling was that the private sector is now responding to the opportunities which our policy is opening up.

The plans of the consortia selected to run the eleven pilot cable franchises are well advanced. These consortia are planning to provide cable services to nearly 1 million homes in the City of Westminster, Ealing, Croydon, Windsor, Guildford, Swindon, Coventry, South Liverpool, North Glasgow, Aberdeen and Belfast. Transmissions should begin in 1985/86.

Various consortia have also been established to provide national cable programmes. The greatest initial interest is in film, sports and music channels, although local programming should follow. A closer assessment of business opportunities has already seen some rationalisation among national programme-makers, and this week has seen the announcement that two of the three groups planning premium film channels have merged. Several of these programme channels will be launched in the next few months in existing cable areas in the UK. This will be a good test of the potential interest in the pilot and subsequent franchises.

There is also encouraging evidence that the UK is learning from the mistakes made by the US cable companies. The US delegates largely dispelled the impression that the American experience casts doubts on the commercial viability of cable. Several companies have gone out of business, but this appears to be more a failure of the companies to assess the realistic business prospects, rather than a lack of market potential.

CONFIDENTIAL

The cable revolution will be entertainment-led, but will be followed by the world of interactive services when home banking and shopping will become commonplace. These developments are perhaps only a few years away, and in some parts of the country are here already. The Nottingham Building Society already offers home banking and shopping through telephone links, and it is likely that cable will accelerate the introduction of these systems. Cable and telephone links are likely to be complementary, with cable providing superior picture quality, and telephone links providing opportunities for national and international interconnections.

There are two areas of Government policy, however, which attracted criticism:

- the question of first-year allowances for cable systems
- the delays in granting formal licences for the pilot franchises.

Neither of these issues is a significant problem impeding the development of cable in the UK. Both are likely to be resolved in the next few months.

The Home Secretary informed the Conference that the position on first-year allowances will be resolved by the time the Finance Bill comes before the House. My impression is that the uncertainty on this point is more of a problem than the decision itself. Financial institutions are understandably reluctant to commit finance until the tax position is clear. Nevertheless, loss of first-year allowances could cause serious problems for some of the less well-established consortia, although I would not expect such a decision to affect the plans of companies like Thorn-EMI.

The second difficulty is that formal licences for the pilot franchises cannot be granted until the Telecommunications Act comes into force in July. The successful consortia have been offered letters of intent. These are likely to satisfy the well-established consortia, but could lead to potential delays of some months in a few cases.

DBS

I detected a reasonable amount of confidence that the current talks between the BBC and ITV companies on a joint venture DBS project will be successful.

The Government is likely to be faced with early decisions on extending the franchises of the ITV companies, on restricting new DBS entrants for 7 years, and for a favourable tax position for DBS investment. These will not be easy questions.

Although cable is likely to be a more revolutionary development because of the potential for interactive services, there is considerable interest in DBS. DBS is seen as complementary to, and not in competition with, cable. DBS will be a national service compared with perhaps 40 per cent coverage by cable. The BBC, in particular, emphasised the benefits of high definition television which satellite broadcasting will bring.

Leon Brittan made clear the Government's wish to see DBS succeed, but emphasised that public money would not be involved and that the development of DBS is a matter for commercial judgement.

Conclusion

The response of the market place confirms that our policy on both cable and DBS is correct.

We should continue to create the right environment for these developments, and to remove obstacles as and when they arise.

We should not, however, use public money either directly or indirectly to stimulate investment. Not only is this not necessary, but it would distort what is a rapidly evolving, vibrant and dynamic competitive market.

The UK is well placed to take full advantage of these developments, which will bring real jobs and wealth to the economy. We are about to enter a new electronic age, the impetus for which has come from the Government's market-based and far-sighted policies.

DLP.

DAVID PASCALL

SUBJECT

J. Barclay
M J Moriarty, HO

pa
(DBS file)
DBS
17/2

1cc DP
CC MASTER

NOTE FOR THE RECORD

Prime Minister's lunch with Independent Television Companies Association Limited at 56, Mortimer Street, London W1, on February 15, 1984.

The list of those present is at Annex I. Bernard Ingham, Chief Press Secretary, accompanied the Prime Minister.

Paul Fox, chairman of the Council, said that the Association wished to discuss the Direct Broadcasting by Satellite venture and their worries about the project as it was emerging from their discussions with Mr Jeffrey Sterling and the BBC. Essentially their concern was the problem of raising £200m to finance their share of the venture when there would be no more than one year of franchises to run before they had to compete for their renewal in 1989.

He and others assured the Prime Minister, in response to her direct question, that they were keen to go into DBS because they saw this as the future for television. But they were cautious because they needed a longer term horizon than six years (1984-1989/90) in entering into a long term financial commitment. The IBA could not, under present legislation, simply extend those licences to, say, 1993-94 in order to get DBS started.

Mr Fox emphasised that the terms of their present franchise were the companies' main concern. They believed that if they could get DBS started they could market it with the BBC whose attitude in the talks had been a revelation.

Mr Bryan Cowgill (Thames) said that for the first time in 30 years BBC and ITV had built a bridge between public service and commercial broadcasting. All that the commercial companies were seeking in order to finance "TV in the sky" was a guarantee of some seven years.

Mr David Plowright (Granada) floated the idea of a "yellow card" system. This would replace the requirement to compete for a renewal of their franchise in 1989 with a system under which the IBA issued a warning that the individual company was in danger of losing its licence if its performance did not improve.

Under questioning by the Prime Minister, some companies protested that they were not suggesting that the yellow card system should indefinitely replace the need to re-compete for their franchise. Others frankly admitted they would prefer a permanent yellow card system, notwithstanding the uncertainty, because they believed they were sufficiently effective to stay in business.

In answer to further prompting by the Prime Minister, who said she must provide an opportunity for newcomers to break into the TV business, the companies suggested there would be openings in Cable TV and in increased scope for programme production arising from Channel 4.

The luncheon concluded at 2.40pm with a request to Mr Fox by the Prime Minister for clarification in writing of what the companies are seeking, taking into account:

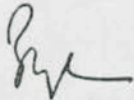
- (i) their need for greater assurance about their franchises beyond 1989 in order to raise £200m for DBS;
- (ii) their desire for the IBA to have discretion in the continuation of franchises beyond 1989;
- (iii) her requirement that there must be a competitive spur to the industry arising from the opportunity for newcomers to break into ITV.

Mr Fox promised an early paper.

Other issues dealt with in the course of the meeting were:

- the companies had no complaint about the C-MAC system; it was the best;

- company satisfaction with Channel 4; the companies said they would not like to see it tinkered with and much preferred a Channel 4 on which they could sell advertising than a Channel 4 competing with the ITV companies for advertising business; the Prime Minister said she believed the Government had got Channel 4 wrong - she wanted two BBC Channels and two independent commercial channels;
- programmes; the Prime Minister said Saturday evening programmes were "diabolical".

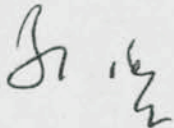


B. INGHAM

16 February 1984

Note and Comment

The companies spoiled a superficially good case for greater security of franchise in order to finance DBS by revealing that they had not thought through their ideas. ITCA subsequently admitted that the idea of a "yellow card" system had been advanced unrehearsed. I strongly urged them to get their act together on a discretionary system operated by IBA. Mr David Shaw, general secretary, told me later that the companies had gone away to think over what had been said at lunch, but hoped to write to the Prime Minister on Friday, February 17.



- Mr Paul Fox - Chairman of Council and Managing Director of Yorkshire Television
- Mr Robert Phillis - Managing Director of Central
- Mr David Plowright - Managing Director of Granada
- Mr Bryan Cowgill - Managing Director of Thames
- Mr David McCall - Chief Executive of Anglia
- Mr James Graham - Managing Director of Border
- Mr Ken Killip - Managing Director of Channel
- Mr Alex Mair - Chief Executive of Grampian
- Mr Ron Wordley - Managing Director of HTV
- Mr William Brown - Managing Director of Scottish Television
- Mr Andy Allan - Managing Director of Tyne Tees
- Mr Desmond Smyth - Managing Director of Ulster
- Sir Brian Bailey - Chairman of TSW
- Mr Timothy Aitken - Chief Executive of TV-am
- Mr Vic Gardiner - General Manager of LWT
- Mr David Shaw - General Secretary of ITCA
- Mr Ivor Stolliday - Secretary of ITCA

Apologies for absence have been received from Mr Brian Tesler, Chairman and Managing Director of LWT. Mr Vic Gardiner will be taking his place.

/...

MR BARCLAY

DBS

Further progress towards a joint DBS project involving the BBC, IBA, ITCA and Unisat was made at Jeffrey Sterling's meeting this morning. A workable concept appears to be emerging and Jeffrey Sterling will be chairing further meetings involving equipment manufacturers next week.

The Government is being asked to provide reassurance on two important points:

- that competitive DBS services will not be allowed during the seven year life of the joint project. The joint company will use three of the UK's five DBS channels so this proposal will defer the use of two of these channels for seven years
- that the ITV franchises will be extended for probably seven years after the current expiry date of 1989.

Both of these points are intended to give greater certainty for commercial investment in what will be a high risk business. They do raise, however, difficult issues for competition policy.

Satellite broadcasting is opening up an exciting range of new technological and broadcasting opportunities. Significant changes are taking place very rapidly and we must be sure that we are not limiting those opportunities by decisions which will exclude new entrants for seven years.

We recommend that the Prime Minister should emphasise that the Government would like satellite broadcasting to succeed but that she should make no commitment on the reassurances sought by the companies.

It is clearly understood by all parties that we intend DBS to be a commercial venture with no Government financial support. Nevertheless the companies may press the Prime Minister on the desirability of offsetting DBS expenditure against tax and the ITV levy. This would amount to indirect Government financing of DBS through the tax receipts foregone.

CONFIDENTIAL

- 2 -

This is not part of the current proposals. It is planned that DBS operations will be independent and ring fenced for tax purposes from terrestrial activities. It is possible that DBS will not be subject to the levy but no firm decisions have yet been made on these proposals.

We recommend, therefore, that the Prime Minister should avoid giving the companies any encouragement that they will be able to offset DBS expenditure against terrestrial tax liabilities.

DLP.

DAVID PASCALL
14 February 1984

CONFIDENTIAL

? D.B.

YJP
pa
DMS
17/2



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

~~Prime Minister~~ (4)

10 February 1984

Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
LONDON W1

DMS
14/2

cg Home Office
FCO
DTI

Dear Prime Minister,

DIRECT BROADCASTING BY SATELLITE

Thank you for your letter of January 30. I am sorry that you could not see your way to adopting my proposal, which was made only after the most careful thought. All my "strictures" can unfortunately be substantiated; but it does not look to me as though to do so would serve a constructive purpose, especially in view of the recent welcome momentum behind the project.

As you say, the Government have now reaffirmed the C-MAC Packet system as their choice for the transmission standard, and it is to be hoped that the current re-appraisal of the DBS project as a whole will soon result in an agreement and a firm plan of action. This will then provide the necessary platform for our further dealings with Europe.

In this respect the kaleidoscope tends to shift quickly: for example, Eire seems now to have emerged as a high priority for attention, while it seems quite likely that we may need to change fairly radically our tactics vis-à-vis France and Germany now that we cannot supply them with MAC equipment within the timescale envisaged last summer. In such circumstances close consultation will be needed between all of us who represent UK interests. I hope that this will be forthcoming.

Thank you for your words of appreciation about my efforts so far.

Yours sincerely

Antony Part

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith, Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)

BROADCASTING:
Direct, Part 4.

PRIME MINISTER

(2)

pa
DMS
6/2

To note that the Home Secretary proposes to include enabling legislation in the Cable and Broadcasting Bill, to permit the IBA to provide independent national radio (INR).

INR is expected to be commercially viable, but there is a dispute with the Treasury about the initial financing of transmitter construction (paragraphs 5 to 8). The sum involved is small (£2½m), and the dispute should surely not be allowed to hold up the introduction of commercial competition and greater diversity in national radio broadcasting.

DMS

3 February, 1984



FCG AH

10 DOWNING STREET

From the Private Secretary

30 January, 1984

Direct Broadcasting by Satellite

Thank you for your further letter of 25 January about DBS. The Prime Minister has noted the present position, and has replied as drafted to Sir Antony Part's letter of 10 January, subject to minor amendments. I enclose a copy of the final reply.

I am sending copies of this letter to Roger Bone (Foreign and Commonwealth Office) and Callum McCarthy (Department of Trade and Industry).

DAVID BARCLAY

M. Gillespie, Esq.,
Home Office

NR



10 DOWNING STREET

THE PRIME MINISTER

30 January, 1984

FILE 84
cc: FCO.
DTI
Knox
cy DP

Dear Sir Anthony

Thank you for your letter of 10 January, on which I have of course consulted the Ministers chiefly concerned with this subject.

I am most grateful to you for the service which you performed in heading the Panel which gave advice on DBS transmission standards in 1982, and in thereafter leading the visits to other European administrations to commend the C-MAC standard for adoption elsewhere in Europe. I understand and appreciate the more general interest which this has given you in the development of British DBS services. But I cannot, I am afraid, accept your strictures either on the handling of this subject by Ministers and their Departments, or on the co-ordination between them.

An analysis of the fortunes up to now of the DBS project must I believe start from what has been generally recognised all along, that the first British DBS service would inevitably involve some risk and uncertainty. Costs, and the crucial question of size and rate of growth of audiences, cannot be accurately predicted. For the BBC, who have been and remain keen to be first in the field, it is a novel venture without the assured audiences and revenues of established broadcasting - and to a degree that would be true of any other broadcaster embarking on DBS. Moreover, the project has been developed during a period when there has been rapid change and development in adjacent areas - policy on cable systems, and the rapid spread of ownership and use of video-cassette recorders, two

/ alternative

54

alternative delivery systems for home entertainment of the kind that DBS will bring.

The Government's approach has been, and remains, to encourage the development of DBS, primarily for industrial and technological reasons though broadcasting considerations are also present. But it has not seen this as an area where Government subsidy, guarantee or pressure would be appropriate. As the Home Secretary made clear in his speech in Cambridge in September, neither the BBC nor any IBA contractor for DBS would be urged to engage in it against their better commercial judgment. The BBC's service is to be on a subscription basis, kept separate from the licence fee; and while it is accepted on all sides that, in the event of failure, the BBC would have only licence fee revenue to fall back on, it has been made clear that the BBC could not expect any automatic compensatory raising of the licence fee level.

Against this background it is only to be expected, and right, that the BBC should weigh the financial viability of all aspects of the project with care. The present Home Secretary, shortly after assuming office, encouraged the BBC to seek a commercial partner to carry a share of the risk. Exploration of one possible partnership unhappily did not prosper, but another - collaboration with the IBA and its contractor(s) - is now being urgently examined, with the good offices of the Government. Meanwhile we have also announced, and introduced in the Cable and Broadcasting Bill, the proposals that would give the IBA the powers it needs to provide DBS through programme contractors - again, if willing and suitable companies come forward.

All this is background to work on the transmission standard, in which you have had a particular interest. The Government's adoption of the C-MAC standard, as recommended in your Panel's report, was announced in November 1982. That decision would have been confirmed by the publication of a specification early last year, had we not quite properly been urged - by you among others - not to pre-empt the prospects of wider European

/acceptance

acceptance of the standard. Efforts to secure that acceptance have, in effect, continued since then. We do not accept that the lapse of time, and the failure to achieve a satisfactory conclusion, are attributable to shortcomings on the part of the UK Government. Rather, it has become clear that the governments of some of our European neighbours - France and Germany in particular - have continuing doubts about C-MAC (and indeed about DBS services) which our best efforts have so far been unable to dispel; and - as you say - they do not have, as we do, a pressing need to reach a decision in order to meet an operational timetable. Our pressure on the French and Germans was relaxed briefly in the autumn, while confidential negotiations between the BBC and a possible commercial partner took place. Thereafter we followed up energetically indications that the French and Germans were ready to reach a conclusion: the Home Secretary personally wrote to Ministers in both countries, and this has been reinforced through the diplomatic channels, which have throughout kept us closely informed on local attitudes and plans. However, it has become clear that European agreement is not yet within our immediate grasp, though we shall continue to work for it.

In these circumstances Ministers decided that overriding weight must be given to the domestic arguments, pressed on us by the manufacturers, for reaffirming our commitment to the C-MAC standard, with the packet sound system. As I believe you know, an announcement to that effect was made last Thursday: I enclose a copy of the text as published.

I have outlined our approach above - and of course there is much detail that could be added - because, though there have been delays and disappointments, it reflects a sustained approach to a difficult, complex, uncertain and rapidly changing situation. Much time and effort has been devoted, personally by the Ministers concerned, by their Departments, and by our Embassies abroad, and there is frequent and effective inter-departmental contact at all levels. I am far from being

/persuaded

persuaded that the situation requires the attention, as you suggest, of a senior Minister alongside the senior Secretaries of State whose responsibility it already is, and do not propose to alter the present pattern of Ministerial responsibilities for these matters. Nevertheless I am grateful to you for the thought which you have given this matter and the energy with which you have pursued British interests.

Yours sincerely
Margaret Thatcher

Sir Antony Part, G.C.B., M.B.E.

Thursday, 19th January, 1984

Written No. .

Sir Peter Emery (Honiton): To ask the Secretary of State for the Home Department, whether he will make a statement about the selection of the colour transmission system to be adopted in the United Kingdom for direct broadcasting by satellite.

MR LEON BRITTAN

My rt hon and noble Friend Lord Whitelaw announced on 30th November 1982 the Government's acceptance of the recommendation of the Advisory Panel on technical transmission standards for direct broadcasting by satellite (DBS) that the C-MAC system should be adopted as the standard for DBS in the United Kingdom. Since then the Government has been engaged in discussions with a number of other countries with a view to securing the adoption of the C-MAC system as the common DBS transmission standard for Europe. At the same time further work has been done on the technical specification of the C-MAC system with packet sound so that industry can make progress with designing and manufacturing the receiving equipment which will need to be available for the start of DBS. In July of last year the full Administrative Council of the European Broadcasting Union (EBU) recommended that the

C-MAC/packet sound system should be adopted as the common transmission standard for Europe, and that recommendation was subsequently endorsed by the European Association of Consumer Electronic Manufacturers (EACEM). The European Parliament has also passed a resolution calling for member states to agree a uniform technical standard. The Government reaffirms its commitment to C-MAC as the DBS vision system for the United Kingdom and has decided that the sound system to be adopted will be the packet sound system as outlined in EBU document SPB284 (with subsequent revisions). We shall continue our efforts in Europe to secure the widest possible acceptance of the C-MAC/packet sound system, as recommended by the EBU. We shall also be talking further with interested parties about the implications of the C-MAC system for cable systems in this country.

Vol 33 Cols 117-118

OVO



THE ORION INSURANCE COMPANY P. L. C.

70/72 King William Street, London EC4N 7BT

Telephone: 01-626 4567. Telex: 886200. Telegrams: Stargram London EC4

Sir Antony Part

Chairman

To: David Barclay Esq

27 January 1984

in your dossier

with compliments



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
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27 February 1984

James Adams Esq CMG
Foreign & Commonwealth Office
Downing Street
LONDON SW1

D.B.S: French Policy

Following my letter of January 23 to Roy Croft (a copy of which you have) and a talk with Derek March, I find it hard to make overall sense of French policy about DBS and, although I know that the French are uncertain about their own policy, I can't believe that they are as uncertain about it as I am! So I should be grateful for some help.

pa
DMS
30/1

I understand that the first ("pre-operational") satellite - called, I believe, TDF 1 - is due to be launched at the end of 1984. There is, therefore, presumably a contractual commitment about this: to whom, by whom?

There is a plan, not yet finally approved, to launch a second satellite (TDF 2) at the end of 1986. If this happens, the two satellites would constitute the platform for the first fully-fledged DBS service in France.

The French have "provisionally" decided that the technical transmission standard to be used in connection with these satellites is to be PAL/SECAM. If both satellites are launched according to the above programme, the PAL/SECAM decision seems inevitable as MAC receiving equipment (as opposed to professional transmitting equipment) could not be supplied in time owing to the British delays over the last six months or more.

Do the French intend that their DBS service should have digital sound? If so, it will be on the critical path and, as I understand it, they will be hard pressed to have it available before 1987. This would help us, but is inconsistent with the timetable described above.

I have been told that for the initial French DBS service (or the initial years of the first French DBS service) the main aims are:-

.. Continued on Page 2 ..

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith, Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)

- (a) to extend the coverage in France beyond that of existing terrestrial TV, and
- (b) to improve the quality of reception in urban areas via master antenna and cable systems and that no new programmes would be involved.

If this is so, I do not understand how the economics are expected to work.

Of course I understand that with the appointment of M. Théry all options are re-opened, including the use of low-power satellites. These are not incompatible with MAC, but if they could be provided quickly they would make the task of supplying MAC equipment in time that much harder.

The purpose of expounding these questions is to get, if possible, a clearer idea of where our interests lie in our forthcoming negotiations with the French and the Germans now that HMG have finally re-affirmed the C-MAC Packet system as the British choice.

Subject to the answers to the questions in this letter, it rather looks to me as though our interest now lies in trying to induce the French and the Germans to delay their final decisions - both about DBS and about the transmission standard - as long as possible. What do you and your colleagues think?

I am copying this letter to Michael Moriarty and Derek March.

ANTONY PART

PRIME MINISTER

Direct Broadcasting by Satellite

You will remember that Sir Antony Part in his letter to you of 10 January (Flag A) criticised the Government for its handling of the issues surrounding direct broadcasting by satellite (DBS). In particular, he saw a lack of co-ordination between the Government Departments involved (Foreign Office, Home Office and DTI); and he regarded the flow of information from our Paris Embassy about the French position as seriously inadequate. He asked you to consider appointing a senior Minister to take charge of DBS.

The attached draft reply (Flag B), which the Home Secretary has approved for your consideration, rejects these criticisms. The background is set out in the letter from his office at Flag C. The Home Secretary clearly feels that Sir Antony Part has exceeded his remit in offering advice on issues which go well beyond the question of transmission standards which was referred to him, and that his interventions have not always produced happy results. The Home Secretary's view is that - contrary to Sir Antony's impression - Ministers and Departments and our Embassies abroad are putting a great deal of effort into the DBS project.

On the project itself, the position is that the BBC and the IBA are still talking with UNISAT, under the auspices of Mr. Jeffrey Sterling, in his capacity as Special Adviser to Mr. Tebbit. An immediate shut down of the project has been averted, and there is some hope of a long term solution being found by agreement between the parties. (You will recall Policy Unit advice that the UNISAT project should indeed stand or fall on its commercial merits, and that it would be wrong for the Government to contribute financially either directly or by exerting undue pressure on the BBC.)

Agree reply at Flag B? Yes

DAVID BARCLAY

26 January, 1984

DRAFT LETTER

ADDRESSEE'S REFERENCE

TO	ENCLOSURES	COPIES TO BE SENT TO
Sir Anthony Part, GCB, MBE Chairman The Orion Insurance Co plc 70 King William Street LONDON EC4N 7BT		
(FULL POSTAL ADDRESS)		(FULL ADDRESSES, IF NECESSARY)

LETTER DRAFTED FOR SIGNATURE BY Prime Minister
 (NAME OF SIGNATORY)

DIRECT BROADCASTING BY SATELLITE

Thank you for your letter of 10 January, on which I have of course consulted the Ministers chiefly concerned with this subject.

I recognise the service which you performed in heading the Panel which gave advice on DBS transmission standard in 1982, and in thereafter leading the visits to other European administrations to commend the C-MAC standard for adoption elsewhere in Europe; and I acknowledge the more general interest which this has given you in the development of British DBS services. However, I cannot accept your strictures on the handling of this subject by Ministers and their Departments, or the co-ordination among them.

An analysis of the fortunes up to now of the DBS project must I believe start from what has been generally recognised all along, that the first British DBS service would inevitably involve some risk and uncertainty. Costs, and the crucial question of size and rate of growth of audiences, cannot be accurately predicted. For the BBC, who have been and remain keen to be first in the field, it is a novel venture without the assured audiences and revenues of established broadcasting - and to a degree that would be true of any other broadcaster embarking on DBS. Moreover, the project has been developed during a period when there has been rapid change and development in adjacent areas - policy on cable systems, and the rapid spread of ownership and use of video-cassette recorders, two alternative delivery systems for home entertainment of the kind that DBS will bring.

The Government's approach has been, and remains, to encourage the development of DBS, primarily for industrial and technological reasons though broadcasting considerations are also present. But it has not seen this as an area where Government subsidy, guarantee or pressure would be appropriate. As the Home Secretary made clear in his speech in Cambridge in September, neither the BBC nor any IBA contractor for DBS would be urged to engage in it against their better commercial judgment. The BBC's service is to be on a subscription basis, kept separate from the licence fee; and while it is accepted on all sides that, in the event of failure, the BBC would have only licence fee revenue to fall back on, it has been made clear that the BBC could not expect any automatic compensatory raising of the licence fee level.

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and Germans was relaxed briefly in the autumn, while confidential negotiations between the BBC and a possible commercial partner took place. Thereafter we followed up energetically indications that the French and Germans were ready to reach a conclusion: the Home Secretary personally wrote to Ministers in both countries, and this has been reinforced through the diplomatic channels, which have throughout kept us closely informed on local attitudes and plans. However, it has become clear that European agreement is not yet within our immediate grasp, though we shall continue to work for it.

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I have outlined our approach above - and of course there is much detail that could be added - because, though there have been delays and disappointments, it reflects a sustained approach to a difficult, complex, uncertain and rapidly changing situation. Much time and effort has been devoted, personally by the Ministers concerned, by their Departments, and by our Embassies abroad, and there is frequent and effective interdepartmental contact at all levels. I am far from being persuaded that the situation requires the attention, as you suggest, of a senior Ministers alongside the senior Secretaries of State whose responsibility it already is, and do not propose to alter the present pattern of Ministerial responsibilities for these matters.



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

25 January 1984

Dear David,

DIRECT BROADCASTING BY SATELLITE

In your letter of 12 January you asked us, in conjunction with the FCO and DTI, to supply advice on, and a draft reply to, the letter which Sir A Part addressed to the Prime Minister on 10 January criticising the handling and interdepartmental co-ordination of this subject and advocating the assignment of a senior minister or other person to supervise it.

... A draft reply is attached.

On DBS generally, the Home Secretary's minute of 14 December gave the general background as well as a statement of the situation then prevailing. My letters of 16 December and 12 January updated the picture. Efforts by Mr Sterling to find a way ahead continue, and show some promise. Unisat have been persuaded to postpone any immediate shutting down of the project, and the BBC, IBA and ITV companies are showing clear signs of a willingness to co-operate; at a meeting on Thursday it was agreed to establish a working group to explore urgently the prospects for a collaborative venture.

As regards transmission standards, Sir A Part's particular area of interest, the note attached to my letter of 18 November gave the general background and the position reached at that time, when we were exploring with the French and German Governments whether they were ready to reach a conclusion on the C-MAC packet system. Enquiries through diplomatic channels were less than wholly reassuring. In view of the pressing domestic arguments in favour of a conclusion, the Home Secretary wrote to his French and German counterparts. Interim responses made it apparent that neither Government is ready to take an early decision, and pressure from the manufacturers for an announcement reaffirming our C-MAC commitment continued to mount. DTI and Home Office Ministers therefore decided to take the opportunity of a tabled PQ to make a suitable announcement on Thursday: a copy is attached. As the announcement says, we shall continue our efforts to secure wider European acceptance of the standard, and the Home Secretary has reassured his French and German counterparts on this.

Turning to Sir A Part's letter, as the draft reply acknowledges he has performed useful services in relation to deciding the transmission standard and commending it abroad, and has developed a close and keen general interest in DBS. However, a consequence has been that he has come to see himself - beyond any assignment given to him by Ministers - as an all-purpose adviser and progress-chaser, not always with happy results. In particular, he has tended all along to take an over-optimistic view of the prospects of European agreement on C-MAC. Senior

/officials and

David Barclay, Esq

officials and indeed Ministers have devoted much time and effort to meeting - as far as has been possible - his requests for information and briefing, and listening to his unsolicited advice. However, we have seen his role as a limited one, and have not felt at liberty to disclose to him all that has been going on - in particular, the highly confidential discussions between the BBC and Thorn-EMI in the autumn - of the guarded reference towards the end of the draft reply. The account of events in his letter is for this and other reasons not a balanced one. It seems best not to attempt, in reply, a line-by-line commentary, but rather to set out robustly the Government's own approach. The suggestion that a senior minister should be appointed to supervise the project is of course a machinery of government question for the Prime Minister to determine. The Home Secretary would wish the Prime Minister to be aware that in his view, as the draft reply brings out, Ministers and Departments and our Embassies abroad have put, and are still putting, a great deal of effort into this project, and work in close collaboration - well beyond what Sir A Part perceives. He considers that Sir A Part should be given a clear message that his comments on these matters are not welcome.

I am sending a copy of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry.

Yours ever
Mike

M J GILLESPIE



File

10 DOWNING STREET

From the Private Secretary

24 January 1984

DIRECT BROADCASTING BY SATELLITE

Thank you very much for your letter of 23 January about DBS. It is extremely kind of you to keep us in touch with your thinking on this important subject.

MR. D. BARCLAY

Sir Antony Part, GCB, MBE

SP



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

23 January 1983

David Barclay Esq
10 Downing Street
LONDON SW1

Dear Barclay,

*had to keep -
touch with the Ministry*

DIRECT BROADCASTING BY SATELLITE

I welcome the re-affirmation by the Government of the C-MAC Packet system and am glad to hear of other recent developments between the potential UK partners. The reasons for putting on a particular turn of speed at this juncture are compelling. If, as I hope, some agreement is reached between the BBC, the IBA, etc. and is ratified, the pressure will need to be maintained for many months to come.

The recent visit by the French delegation was, I think, a success, but there is plenty of consequential work to do. The Prime Minister will not want to be bothered with the detail, but the enclosed copy of my letter to Roy Croft, the Deputy Secretary concerned at the DTI, illustrates the kind of purposeful action that is needed.

Yours sincerely
Antony Part

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith, Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

CONFIDENTIAL

23 January 1984

R H F Croft Esq CB
Department of Industry
Ashdown House
Victoria Street
LONDON SW1E 6RB

DIRECT BROADCASTING BY SATELLITE - FRENCH VISIT

The visit of the French DBS delegation under M. Théry was, I think, well handled and, so far as I know, no-one rocked the British boat. I am sure that the French appreciation was genuine: they remarked particularly to me on the quality of the IBA demonstration ("It is one thing to read about MAC: it is another to see it in action") and on the "enthusiasm" of Mullards for MAC.

To persuade them to recommend MAC in their report will, however, require much further skill and effort on our part, even though we were assured that the Franco-German Government decision of January 5 in favour of PAL/SECAM was "only provisional".

M. Théry (who, I was pleased to find, is a friend of my French colleague on the Board of Lucas Industries, M. Jean-Maxime Léveque, the former Chairman of the CCF) is very commercially minded. He is liable to be interested in a solution which allows the market to operate as freely as is practicable. At the same time he is a dirigiste so far as relations between the French Government and the TDF are concerned!

I believe that the following action by the UK is now required:-

- (a) We should take advantage of M. Théry's offer to me to see someone from the UK in Paris at the end of his tour and before he writes his report. The timing would be arranged through M. Delbourgo, the Scientific Counsellor at the French Embassy in London. I should naturally like to be involved; but I think that the number of British visitors should not exceed two (or perhaps three), so I appreciate that selection may present a problem, especially as M. Théry is concerned with DBS as a whole and not just with the transmission standard. I hope very much that you will lead the party.

.. Continued on Page 2 ..

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith, Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)

- (b) Tom Robson at the IBA is preparing the first draft of a two-page summary of the case for MAC to be sent to M. Théry with a view to inducing him to include it in his report. I shall be happy to help with the vetting of the draft.
- (c) M Théry's contacts in the USA have clearly persuaded him that a low-power satellite may be preferable to the high-powered satellites which we are contemplating following the WARC agreement. In this he is supported by M. Sartorius, his space expert, though not by M. Georgy, his TDF technical representative. Bryce McCrirrick tells me that he has given M. Théry a BBC paper pointing out the snags; but Bernard Rogers can supply a piece which I am sure would be useful. I hope you will feel inclined to commission a draft from him. [As I understand it, a low-power satellite would by no means be incompatible with MAC: rather the contrary].
- (d) M. Théry told me that he had not yet decided whether to recommend advertising or subscription. ("I shall recommend whichever seems likely to produce the greater profit"). But on present form he will probably be advised that if advertising is the choice and therefore no scrambling is involved, a MAC receiver would cost £70/100 more than a SECAM receiver. To say this is not comparing like with like. The point was dealt with, I am reminded, in the report of the Anglo-Franco-German Working Party. I am sure that it would be worth nailing. Bernard Rogers could provide a draft. [Incidentally, the French Broadcasting Research Organisation, CCETT, has been prominent in recommending the development of encryption and scrambling, but M. Théry is, I think, very much a man with a mind of his own].

Finally, I think we need more clarification than I, at any rate, have seen of the French DBS plans to date and their implications for equipment, including the timing for delivery. I will pursue this with Derek March.

Meanwhile our Embassies in Paris and Bonn will no doubt be reporting on the French and German reaction to the UK re-affirmation of the SEMAC Packet system. I understand that the Bundespost first reaction was to consider it justified following the tri-partite working party reports.

I am copying this letter to James Adams (Foreign & Commonwealth Office) and Michael Moriarty (Home Office).

ANTONY PART

23 JAN 1984



Thursday, 19th January, 1984

Written No. .

Sir Peter Emery (Honiton): To ask the Secretary of State for the Home Department, whether he will make a statement about the selection of the colour transmission system to be adopted in the United Kingdom for direct broadcasting by satellite.

MR LEON BRITTAN

My rt hon and noble Friend Lord Whitelaw announced on 30th November 1982 the Government's acceptance of the recommendation of the Advisory Panel on technical transmission standards for direct broadcasting by satellite (DBS) that the C-MAC system should be adopted as the standard for DBS in the United Kingdom. Since then the Government has been engaged in discussions with a number of other countries with a view to securing the adoption of the C-MAC system as the common DBS transmission standard for Europe. At the same time further work has been done on the technical specification of the C-MAC system with packet sound so that industry can make progress with designing and manufacturing the receiving equipment which will need to be available for the start of DBS. In July of last year the full Administrative Council of the European Broadcasting Union (EBU) recommended that the

C-MAC/packet sound system should be adopted as the common transmission standard for Europe, and that recommendation was subsequently endorsed by the European Association of Consumer Electronic Manufacturers (EACEM). The European Parliament has also passed a resolution calling for member states to agree a uniform technical standard. The Government reaffirms its commitment to C-MAC as the DBS vision system for the United Kingdom and has decided that the sound system to be adopted will be the packet sound system as outlined in EBU document SPB284 (with subsequent revisions). We shall continue our efforts in Europe to secure the widest possible acceptance of the C-MAC/packet sound system, as recommended by the EBU. We shall also be talking further with interested parties about the implications of the C-MAC system for cable systems in this country.

Broadcasting - direct broadcasting
by satellite Pt 4.

25 MAY 1984

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9 8 7 6 5 4

CONFIDENTIAL

✓CNO



Foreign and Commonwealth Office

London SW1A 2AH

18 January 1984

nbpm
DMS
18/1
Mr. [unclear]
A.J.C. 18/1

Dear John,

Direct Broadcasting by Satellite

Sir Antony Part called on Sir Antony Acland on 12 January and left with him a copy of the letter of 10 January which he has sent to the Prime Minister on this subject. The Home Office/DTI, who lead on this issue, will no doubt be sending you material for a reply, but you may like to have our observations direct on the criticisms of the way in which the FCO, and in particular the Embassy in Paris, have handled it.

While discussions in Whitehall have been complex, we would not agree that they have been as unco-ordinated as Sir A Part would suggest as regards the aspects of which we in the FCO are involved. Our main interest has been to try to help work towards an agreement on a DBS standard with the French and Germans: as a result of developments in domestic policy, this has not always been easy and it is perhaps not surprising that a keen protagonist of DBS such as Sir A Part should become impatient.

Nor would we concur in his strictures of the Paris Embassy, who (like our Bonn Embassy), have sent us a continuous and useful supply of intelligence, information and advice.

We have tried to give Sir A Part a general account of our discussions with the French and Germans when he has enquired (his main contacts have been with the home Departments), but because of his slightly ambiguous position we have not told him of everything that has occurred.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

Broadcasting DBS

A4



178 JAN 1984





cc WFO
710
HMT
DTI
CO

JG

10 DOWNING STREET

From the Private Secretary

13 January 1984

DIRECT BROADCASTING BY SATELLITE

Thank you for your letter of 12 January, reporting recent developments on the BBC/Unisat project. I have shown this to the Prime Minister, who has noted it without comment.

I am copying this letter to the recipients of yours.

(DAVID BARCLAY)

Michael Gillespie, Esq.,
Home Office.

NR

CC DP A

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

12 January 1984

MS

Dear David,

DIRECT BROADCASTING BY SATELLITE: THE BBC/UNISAT PROJECT

Prime Minister
Unisat extend the
deadline for agreement
with the BBC and IBA.

There have been further developments in the situation since it was reported to the Prime Minister and other Ministers, in a series of minutes and letters shortly before Christmas, and the Home Secretary judged that it might be helpful to the Prime Minister and some other colleagues to have a further situation report. This of course does not displace the evaluation sought in your letter of 22 December to Callum McCarthy at DTI: however, as I believe the DTI have been explaining to you, that evaluation will be more easily carried out when the situation has become a little less fluid than the following paragraphs show it to be just at present.

DBB
12/1

Representatives of Unisat came to see the Home Secretary and Secretary of State for Trade and Industry on Thursday 22 December. They explained their difficulties in continuing to spend money on the project in the absence of binding contracts with the BBC, and declared that they would have to terminate it early in January in the absence of guarantees of further expenditure from the BBC or from the Government.

The BBC's difficulty, as has been previously explained, is in committing itself to expenditure on the project before it knows that it has a sound basis for proceeding - and this the BBC sees as involving a joint venture with a partner. Hence the BBC's urgent explorations with the IBA of possible schemes of co-operation.

At the 22 December meeting Ministers discouraged any Unisat idea of a Government guarantee, while making it clear that the Government were anxious that the project should continue and would use their good offices with all parties to that end. The meeting considered possible ways in which the project might be kept in being while the BBC and IBA explored possible means of collaboration. As a result, Unisat put proposals to the BBC on 5 January. These outlined ways in which the project might be modified so as to accommodate a BBC/IBA joint venture, and a postponement of the launch date (which now seems inevitable) from 1986 to 1987. Unisat's central proposal, however, was that, without prejudice to the question of liability for money already spent (on which the views of the BBC and Unisat differ), the BBC should guarantee a share of the cost of expenditure on the project incurred by Unisat from now until mid-March, during which time the BBC would be expected to reach a conclusion on the feasibility of a joint venture with the IBA or another means of continuing with the project.

The Home Secretary undertook to use his good offices to ensure that this proposition was properly considered by the BBC. To that end he and Mr Baker saw the Chairman and Director General of the BBC on Tuesday 10 January. They, while reaffirming their desire to continue with Unisat in DBS and to negotiate

/a joint venture

David Barclay, Esq

a joint venture with the IBA, made it clear that they could not see their way to giving Unisat the guarantee sought, at a time when they could not be sure that they would by mid-March be in a position to continue with the project. They will be informing Unisat accordingly.

A separate meeting between the Home Secretary and Lord Thomson made it clear that, while the IBA are keen to participate in an early British DBS project and to collaborate with the BBC, they and the BBC are some way off agreeing on the basis of collaboration. Moreover, the IBA would be only part of the act: they would need to find a DBS contractor(s) (in much the same way as for terrestrial ITV) to enter into a financial commitment with Unisat.

Unisat had said that in the absence of agreement with the BBC they would halt the project on Friday 13 January, redeploy or dismiss the work force and begin legal proceedings against the BBC to recover the money spent or committed. However, in an urgent move to seek a way ahead, Ministers on Tuesday asked Mr Jeffrey Sterling, special adviser to Mr Tebbit, to explore with all parties whether there were ways of avoiding an imminent collapse of the project, and we have now heard that Unisat have decided not to close down tomorrow.

I am sending a copy of this letter to the Private Secretaries to the Lord President; the Foreign and Commonwealth Secretary; the Chancellor of the Exchequer; the Secretary of State for Trade and Industry and Sir Robert Armstrong.

Yours ever

Mike

M J GILLESPIE



DBS

A and B

ITCA are likely to make this their main talking-point. The Prime Minister will be familiar with the present position from a number of recent reports (most recently the Home Office letters of 12 and 25 January). Mr J Sterling is continuing his efforts to explore with the BBC, IBA, ITCA and Unisat the prospects of keeping the present DBS project going on a revised and shared basis. A working group chaired by Mr Whitney (Director General of the IBA) has examined the issues in detail and produced a report which we expect will be discussed with Mr Sterling at a meeting on Tuesday 14 February with a view to a further report to the Home Secretary and Secretary of State for Trade and Industry.

2. The possibility is emerging of a joint project on the following lines. There would be a joint BBC/IBA company to provide (probably) 3 DBS channels as an entity, to be financed by a single subscription from those who took the service. As before the satellite system would be funded by the private sector. The start date could be 1987 and the resources so far committed by the members of Unisat (BAe, GEC-Marconi and BT) would not be wasted. It seems likely that all the ITCA companies, except possibly a few of the smaller ones, would wish to join. In addition to the joint company, there would be a joint body, which would almost certainly require statutory provision, to assume the responsibilities of a broadcasting authority for the output of the company for the duration of the project. Part II of the Cable Bill, which empowers the IBA to provide DBS services on the normal contractual basis, would be enacted as planned, but would probably remain 'on ice' for the life-time of the joint project (probably of the order of 7 years). The joint project would use the Unisat system under construction, though of course fresh negotiation over specification, price etc would be required.

3. The ITCA companies take the view (which they are likely to urge on the Prime Minister) that they could not engage in DBS on this (or any other) basis unless they secure an extension (probably for 7 years) of their terrestrial franchises (which expire at the end of 1989), so that they and their shareholders could be committed to the DBS project without the distraction of



franchise renewal or the risk of being left without a terrestrial franchise.

4. The Home Secretary and the Trade and Industry Secretary have given a fair wind to the exploration of a joint project because it could well offer the best prospect of getting a good-quality British DBS service going in the mid-1980s, and would avoid the risk of dissipating the progress made by Unisat. Clearly the project as it is likely to emerge would be some way off from the more competitive approach earlier envisaged, and when a 'package' emerges Ministers will have to decide whether its advantages outweigh its drawbacks. In particular, to make the ITV companies the sole, or chief, non-BBC participants in the project, and to confer the extension of terrestrial TV franchises which they understandably seek, are difficult propositions for the Government, at variance with its preferred approach. They will require careful consideration in the light of ITCA's case for the extension (which we have just received) and the reaction of the IBA (which we await). Meanwhile, ITCA should not be encouraged to believe that an extension of franchises can be taken for granted.

5. The Prime Minister may wish to

- (a) listen to the ITCA arguments;
- (b) confirm the Government's readiness to see full exploration of the prospect of a joint project utilising facilities provided by Unisat;
- (c) emphasise that the Government will look sympathetically at any package acceptable to all parties - including Unisat;
- (d) remind ITCA that there are elements in it - in particular the renewal or extension of ITV terrestrial franchises - which the Government would not find it easy to accept, and could not endorse without careful consideration.



Channel 4

Our impression is that Channel 4 is at present in smooth waters. The grumbling from the ITV companies about its costs (see below) have largely died away - in part, no doubt, because of the considerable buoyancy of ITV advertising revenue. We believe that overall the ITV companies are reasonably content. Channel 4 audiences are on the increase: "The Far Pavilions" gave them a considerable boost, and various programmes of quality - films, and the new series on China ("Heart of the Dragon"), are giving satisfaction to discriminating viewers. There have been few recent criticisms of bias, bad language etc (but the result of Mrs Whitehouse's court action over the late-night showing of "Scum" is awaited).

Channel 4 Finance

2. Channel 4 is financed by means of subscription levied on the ITV companies by the IBA. The total subscription for 1984 is £139m, of which Channel 4 will receive £111m and £28m will go to the separate Welsh Fourth Channel (S4C). This represents an increase on the previous financial year of 9.4% for Channel 4 and 11.5% for S4C (ITV advertising revenue for 1983 was 18% up on 1982). In return for their Channel 4 subscriptions, the ITV companies have the right to sell advertising on Channel 4.

Equity/IPA dispute

3. The extra advertising revenue earned by the ITV companies has so far fallen short of their Channel 4 contribution. This is because of low audiences; Channel 4's newness as a medium; and the 18-month old Equity/IPA dispute. The dispute is over the payments to actors for repeats of TV advertisements. After more than a year, this looks increasingly like a dispute without a solution. The parties to it are not seriously hurt by it and have no strong incentive to settle. Equity seems anarchic, the IPA stubborn. The parties hurt by it - Channel 4 and therefore the ITV companies; also TV-AM - can do little to help resolve it. Its effects are gradually diminishing as more and more TV advertisements are made without Equity performers. The IBA and others have



been energetic in offering mediation, so far to no avail. Appeals have been made to the Government to intervene. Ministers have taken the view that this is not their function - and anyway there is no reason to believe that Ministers might succeed where other intermediaries have failed.

ITV exports

4. ITV sales of programmes overseas have averaged £20m-£30m over the last 5 years. It is a difficult market because of the vast surplus of television product available worldwide, and because of the repeat fees payable to the talent unions. Leading exporters are Thames, Granada, Anglia and LWT. Thames has been short-listed this year for the Queen's Award for export achievement.



10 DOWNING STREET

From the Private Secretary

12 January 1984

I enclose a copy of a letter to the Prime Minister from Sir Antony Part about direct broadcasting by satellite, a copy of which I think you may already have seen.

I should be grateful if you could provide advice for the Prime Minister and a draft reply by 26 January, in conjunction with the Foreign and Commonwealth Office and the Department of Trade and Industry.

I am sending a copy of this letter and the enclosure to Robert Bone (FCO) and Steve Nicklen (DTI).

DB

Michael Gillespie, Esq.,
Home Office.

Send



10 DOWNING STREET

~~GR~~

Typed letters only

to be enclosed please.

DMS

12/11



10 DOWNING STREET

re. Butler

The F./C.O. says to say that they would be commenting on this letter. Apparently Sir A. Park called on the PUS's in F./C.O., Home Office and J.T.L. and left copies.

A.F.C. 12/1.

~~PRIME MINISTER~~

CF: Please keep on
dbs policy file,
& keep a check on
progress of HO advice.

To see these two letters from Sir Antony
Part about Direct Broadcasting by satellite.

Sir Antony has himself sent copies of the
typed letter to the Home Office, FCO and DTI.
Ministers there disagree radically with his
analysis, and the Home Secretary will be
providing you shortly with advice and a
draft reply. We have acknowledged the
letters meanwhile.

The current delicate state of negotiations
between the BBC, the IBA and Unisat is
described in the Home Office note immediately
below this in the box. The latest position
is that Unisat have extended their deadline
for agreement with the BBC and the IBA.
The BBC are still not offering any
guarantees.

Duty Clerk

for (DB)

12 January 1984

Arch'd
12/11



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

R 11/11

Personal

11 January 84

Dear Margaret,

Ever since you first became Prime Minister I have
not asked for your help about anything. I do so now -
for the reasons described in the enclosed letter, which are
much more important than the fact that during the last
eighteen months I have spent nearly half my time on
the subject.

If you would like to discuss the matter I am
of course at your disposal.

Happy New Year!
Yours ever

Antony

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith,
Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)



Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

10 January 1984

Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
LONDON W1

Dear Prime Minister,

DIRECT BROADCASTING BY SATELLITE

As you know, I have the task of advising the Government on the technical transmission standard for DBS - in latter months particularly in connection with the attempt to get the C-MAC Packet system adopted as a European standard. But because the transmission standard inter-connects so closely with the other aspects of the project I naturally accumulate a good deal of information about DBS as a whole.

Ever since last July the project has been losing momentum. This is due largely to doubts generated in the BBC. These related partly to the commercial viability of the enterprise and partly to some inaccurate advice given within their ranks about the estimated cost of the receiving equipment if MAC were involved.

I have done my share in disabusing the BBC on this latter question and the Chairman has recently conceded the point.

Meanwhile, as you know, discussions are belatedly underway between the BBC and the IBA about the project as a whole. These have no doubt been stimulated by the fact that the Uni-Sat deadline for stopping work failing the signature of an agreement will be reached within a matter of days.

I am afraid that I think, however, that the Government have themselves been seriously to blame for the delays and indecision which have characterised the last six months. These have been due to the lack of any central thrust and to poor inter-Departmental co-ordination between the Home Office, the DTI and the FCO.

As regards the satellite, once it became clear that the BBC were having doubts about the cost implications, there should have been co-ordinated contingency planning to consider what alternatives there might be and what action, including Parliamentary action, was needed to implement the various possible solutions. This was

.. Continued on Page 2 ..

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith,
Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)

not undertaken, with the result that a series of hasty discussions is now in progress.

Much of the delay has been due, I think, to different views in and between Departments about the extent to which there is - or is not - a national interest in seeing that DBS services are initiated.

As for the transmission standard, the re-affirmation by the Government of the C-MAC Packet system ought to have been announced in the early autumn. The subsequent delays have seriously handicapped industry. For example, Mullards, the key manufacturers of integrated circuits for the system, are under very heavy pressure from their Dutch parent company to abandon work on the project because of the lack of an announcement by HMG.

Moreover, the Government's indecision, which in the incestuous world of broadcasting technology has not been slow to get around the European grapevine, has handicapped our efforts to sell the system to Europe. "Why should we adopt a system in which it appears that HMG and the BBC are losing confidence?".

To delay the decision because of doubts by the BBC was unrealistic. It has been clear for some time that the BBC's doubts, which were based on faulty engineering advice, could not be removed by rational argument. In the event, they have come in only because they know that the IBA would not collaborate on any other basis. (Objectively it remains the case that MAC is likely to be at worst marginally more expensive than the DBS version of PAL and much better in quality).

So far as the European aspect is concerned, excellent progress has been made on the technical front with both broadcasters and industry, but it appears that neither Government has as pressing an operational need for an urgent decision as we do and it is already clear that no agreed Anglo-Franco-German decision can be reached before the middle of February at the earliest. This is because of the proposed three-power conference of officials in Bonn and because of the forthcoming study tour to the UK, Germany and Japan on behalf of the French Government by M. Thery, the former Director-General of Communications.

I mentioned the FCO earlier on. I must confess that, although they have complied with the requests made to them, their intelligence service about the various strands of thinking, in France in particular, has been disappointing. In such a complex and fast-moving affair a greater flow of information about the various points of view would have been helpful.

The central purpose of this letter is to say that, assuming that the project does not collapse this week, I very much hope that you will consider appointing a senior person, preferably a senior Minister, to supervise the project with a view to ensuring that the present lack of inter-Departmental co-ordination should be remedied, that a freer flow of information should be established and that the progress of the operation should be effectively policed until the DBS services go on the air.

Yours sincerely
Anthony Post

see NO

From: THE PRIVATE SECRETARY

RESTRICTED



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

10 January 1984

Dear Michael,

n bpm
JMS
10/1

CABLE BILL - RESERVE MINISTERIAL POWERS

Your Secretary of State wrote on 28 November in response to the Home Secretary's letter of 4 November to suggest that our respective legal advisers should discuss whether the Energy Act 1976 contains sufficient powers to enable the Secretary of State to regulate the transmission hours for cable television in time of emergency.

I understand that it has now been concluded that the Energy Act powers could be used for that purpose and that, should the situation arise, there would in principle be advantage in dealing with the broadcasters in the same way rather than under the Broadcasting Act and the BBC Licence and Agreement. This appears to meet the objectives of our two Departments.

Copies of this letter go to the Private Secretaries to the Prime Minister, the Lord President of the Council, the Chancellor of the Exchequer, the Secretaries of State for Foreign and Commonwealth Affairs, Defence, Northern Ireland and Trade and industry and Sir Robert Armstrong.

Your sincerely

Michael Heseltine

M J GILLESPIE

M F Reidy, Esq

energy

RESTRICTED

Broadcasting : Cable Pt 4

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10 DOWNING STREET

From the Private Secretary

22 December 1983

BBC AND UNISAT

The Prime Minister has seen a copy of your Secretary of State's letter of 21 December to the Home Secretary about the BBC and UNISAT.

The Prime Minister is not at all persuaded that there is a case for underwriting any part of UNISAT's future costs. She would be grateful if your Secretary of State, in consultation with the Chancellor of the Exchequer and the Home Secretary, could now put in hand a full evaluation of the issues involved, including the implications for satellite broadcasting of the Government's policy on cable.

I am sending copies of this letter to John Kerr (HM Treasury), Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

M. L. BARCLAY

Callum McCarthy, Esq.,
Department of Trade and Industry.

Handwritten signature

21 December 1983
Policy UnitPRIME MINISTERBBC: UNISAT

We see no reason why the Government should underwrite any of the future costs of UNISAT.

As DBS always was a commercial venture, we should continue to leave any decisions on financing to the parties involved. It is a good test of the future commercial viability of DBS whether or not the BBC and UNISAT are prepared to raise £20 million over the next few months.

The prospects for DBS will need to be carefully reviewed in the context of both alternative partners and the changed environment which has resulted from our policy on cable. It may well be that the most appropriate method of developing satellite broadcasting will be in conjunction with cable. This could best be carried out by leasing a dedicated transponder on a telecommunications satellite.


We should therefore avoid closing off any options which the BBC and the IBA wish to explore.

We also need to think very carefully before we guarantee that no other satellite system will be licensed during the life of UNISAT.

A soundly based commercial project for satellite broadcasting is our best chance of ensuring that the appropriate new technologies are developed. There is a large demand for the skills of UNISAT's staff and if the project were to be cancelled, we would still expect the UK to benefit from work on space communication.

We recommend that you should:

- (a) not agree to underwriting UNISAT's future costs;
- (b) ask for a proper evaluation of the issues and implications for satellite broadcasting raised by both DBS and cable.

DAVID PASCALL

PRIME MINISTER

UNISAT

The Home Secretary reports in his letter at Flag A that discussions are continuing between the BBC, the IBA and UNISAT.

In his letter at Flag B, Mr. Tebbit expresses some sceptism about the chances of reaching an early solution and, albeit reluctantly, ^{argues} agrees that "It would be right to investigate further the possibility of under-writing a part of the incremental cost". The cost involved is likely to be of the order of £20 million ^{over} of the first three or four months of 1984.

The Policy Unit advice at Flag C is firmly against any under-writing of UNISAT's future costs. They suggest in addition that there is a need for a proper evaluation of the issues, and of the implications for satellite broadcasting raised by both DBS and cable.

Agree a response to Mr. Tebbit along the lines recommended by the Policy Unit?

Yes no

D.B. Clerk

P.P. D.B.

21 December 1983



QUEEN ANNE'S GATE LONDON SW1H 9AT

Prime Minister

21 December 1983

To note that discussions
continue ~~and~~ between the
BBC, IBA and Unisat.

Norman,

*Done
21/12*

Thank you for sending me a copy of your minute of 15/December to the Prime Minister.

Since sending it you will have seen, from the Press and from the note which my Private Office sent to No 10 on Friday, 16 December, that the BBC Board of Governors have decided to continue to explore all possibilities of keeping their DBS project going. In fact there have already been exploratory discussions between the BBC and IBA, between the IBA and Unisat, and between the BBC and Unisat. All this is welcome evidence of a desire on all sides to sustain the project. All concerned are aware of the need for a speedy resolution.

As you know, I share your hope that it will prove possible for the BBC, a partner and Unisat to agree on acceptable terms to all concerned for the continuance of the project; and I am encouraging all parties in that direction. However, in this rapidly moving situation I am sure that it would be premature to decide now what to do if these efforts proved unavailing. So much would depend upon the circumstances in which those involved had failed to reach agreement; how each then read the situation; and what in the changed circumstances seemed the right course in the interests of DBS, and of all concerned. However, I am confident that the BBC fully understand that, in the event of their negotiations with Unisat coming to nothing, they could not simply continue with a new satellite provider; the situation as a whole would need to be reviewed.

I am sending a copy of this letter to the Prime Minister, the Lord President, the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to Sir Robert Armstrong.

Norman,

The Rt. Hon Norman Tebbit, M.P.

Broadcasting : First Broadcasting # 4



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Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

COMMERCIAL IN CONFIDENCE

21 December 1983

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

Prime Minister

Mr Tebbit suggests "further investigation" of the possibility of underwriting some of Unisat's future costs (£20m over the next few months).

Policy Unit recommend against this (see note at A). Agree we respond as they suggest?

D Leon

BBC : UNISAT

I have seen both Mr Young of BBC and Sir Tin Pearce on Monday and Tuesday to discuss BBC and UNISAT. Both have made clear that there is very little room for manoeuvre. The BBC has Counsel's advice that they have no contractual obligation towards UNISAT, and in the light of this believes it would be wrong to meet any of UNISAT's costs to date. UNISAT, for its part, has comparable but conflicting legal advice, to the effect that it has a claim on the BBC.

2 As I now understand it from Stuart Young, the BBC is prepared to go ahead with UNISAT in conjunction with the IBA, provided that the BBC and the IBA are guaranteed that no satellite system is subsequently licensed for the life of UNISAT (that is until the mid-1990s). It will take some months to discover whether such an arrangement can be arrived at, even with the most active work by all concerned. In the meantime, we are faced by a period of uncertainty while the BBC and IBA consider their position. During this period, which might reasonably be expected to be at least three months, there will be a problem of financing. The BBC has made clear that they are not prepared to pay for UNISAT's continuing expenditure during this period; and UNISAT for its part made clear that it is not prepared to invest more. Both have looked to Government to see whether any underwriting would be possible in respect of this additional expenditure. It would be clearly necessary to distinguish between the cost to date, which must be met by either or both of the BBC and UNISAT, depending on how the legal argument is resolved, and the future costs.

Due
21/12



3 The cost involved, even assuming that the UNISAT programme is delayed to reduce costs so that the satellite would not be launched until 1987, when receivers will be ready, would be some £20 million for the first three or four months of 1984. I see every reason to put severe pressure upon both the BBC and upon UNISAT to recognize that, irrespective of the eventual decision on the £50 million committed by UNISAT until December 1983, they should be prepared to fund the £20 million between them. I think there is no chance, however, that they will share this expenditure, and will look to Government for a lead in providing some form of underwriting of a proportion of this total cost. Clearly, I do not relish such a solution. I contemplate it only because it may offer a means of preventing the collapse of the DBS project. Clearly, I should have to be entirely convinced that, were the Government to underwrite any of the additional costs, we should not incur any liability in respect of the £50 million already spent. I do believe, however, that it would be right to investigate further the possibility of underwriting a part of the incremental cost, as a possible means of avoiding what could be an embarrassing and damaging conflict which would severely harm our policy towards satellite broadcasting. I am not sanguine about the prospect, against the very tight timetable we have, of succeeding. I do not believe, however, we should refuse to consider underwriting a defined portion of the future costs.

4 I am copying this minute to the Prime Minister, the Chancellor, and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

27 DEC 1983





file 16

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD
CABINET OFFICE

DIRECT BROADCASTING BY SATELLITE

I enclose a copy of a letter I have sent today to Steve Nicklen at the Department of Trade and Industry about direct broadcasting by satellite. The Prime Minister was grateful for the advice contained in Sir Robert Armstrong's minute to Andrew Turnbull of 16 December, and in Dr. Nicholson's minute of the same date.

- DAVID BARCLAY

19 December 1983

M



10 DOWNING STREET

File 46
a Lord President
from
TSY
CO

From the Private Secretary

19 December 1983

DIRECT BROADCASTING BY SATELLITE

The Prime Minister was grateful for your Secretary of State's minute of 15 December about the BBC and UNISAT. She was also grateful for the report from the Home Secretary contained in Mike Gillespie's letter to me of 16 December.

The Prime Minister has noted the position, and your Secretary of State's views, and would be grateful to be kept in touch with developments.

I am sending a copy of this letter to the recipients of the earlier correspondence.

DAVID BARCLAY

Steve Nicklen, Esq.,
Department of Trade and Industry.

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IN CONFIDENCE



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10 DOWNING STREET

From the Private Secretary

16 December, 1983.

The Prime Minister was grateful for your Secretary of State's minute of 14 December about UNISAT. She has noted this without comment at this stage.

I am sending copies of this letter to the Private Secretaries to the recipients of your Secretary of State's minute.

David Barclay

Michael Gillespie, Esq.,
Home Office.

COMMERCIAL IN CONFIDENCE

br

PRIME MINISTER

Direct broadcasting by satellite

Since the Home Secretary reported to you on this subject a great deal of paper has been generated.

Mr. Tebbit in his minute at Flag A warns of the industrial consequences of the breakdown in negotiations. He advocates a very strong line with the BBC, and even suggests an ultimatum (if they fail to sign a contract with UNISAT, they should be excluded from DBS all together).

Sir Robert Armstrong in his minute at Flag B also sees some national interest in keeping UNISAT alive, though he is opposed to Mr. Tebbit's ultimatum.

The No. 10 Policy Unit (Flag C) think it would be a mistake to put undue pressure on the BBC, who should be allowed to exercise their commercial judgement.

The crisis point has not yet been reached however. As the Home Secretary reports at Flag D the BBC and the IBA are now in touch about forming some sort of partnership. Everybody agrees that this would be a good thing if it can be made to work.

DMB

16 December 1983



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

16 December 1983

Dear David,

DIRECT BROADCASTING BY SATELLITE: THE BBC/UNISAT PROJECT

Further to the Home Secretary's minute of 14 December to the Prime Minister, I am writing to report that (as indicated in the more accurate of this morning's press accounts) the BBC Board of Governors discussed DBS yesterday and, while acknowledging that there were difficulties yet to be overcome, concluded that the BBC "should continue to explore all possibilities which will lead to the setting up of a British DBS system". We understand that the BBC and IBA Chairmen had a constructive exploratory meeting this morning. There is to be a meeting between Mr Young and Unisat on Monday. This is a promising start, although obviously there is much rocky ground to be traversed.

We shall be keeping in close touch with all parties but saying no more than we need to do at this delicate stage. The BBC are at present not saying publicly that they are in touch with the IBA, and have asked us not to breach their confidence. Questions may, of course, be asked during Monday's debate in the Lords on the Cable and Broadcasting Bill. In that event Lord Elton would rest upon the statement by the Board of Governors, adding that the Government welcomes their approach and will continue to use its good offices to encourage a successful pursuit of the project.

Should the idea of a partnership between the BBC and IBA and DBS contractor appointed by the IBA prosper, it is possible that the precise framework for independent DBS proposed in Part II of the Bill may require some modification. We shall be ready to consider that situation should it arise.

Since this letter was drafted a copy of the Secretary of State for Trade and Industry's minute to the Prime Minister has come to hand. The Home Secretary will be considering over the week-end whether he wishes to offer any further comment.

I am sending a copy of this letter to the Private Secretaries to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

Yours ever

Mike

(M. J. GILLESPIE)

David Barclay, Esq.

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MR BARCLAY

DIRECT BROADCASTING BY SATELLITE (DBS)

We feel there is a danger of the Government drifting into a greater commitment to this project than its past history warrants.

The Government should rest content with the BBC's decision to seek a partnership with an IBA contractor, and should not attempt to pressurise the BBC into sticking with the project if this option fails to materialise.

We have too long a history of arm-twisting nationalised industries - and private ones too - into costly enterprises against their better judgment, with disastrous results.

1. DBS always was a commercial venture based on the BBC's judgment. Leon is slightly misleading in referring to the Government's decision in March 1982 to "make a start with DBS", primarily for industrial reasons. There is no Government commitment to DBS, much as we hope it will take off and develop new technologies, broadcasting opportunities, etc.
2. If the BBC now judge that it is not likely to be a commercial success, the Government should respect their decision.
3. There should be no question of us attempting to override commercial judgments, although we can propose alternatives, such as the IBA option or closer links with cable, which could then be commercially assessed. We should not prevent the BBC purchasing alternative satellite capacity if that is a sensible commercial option.
4. The embarrassment is largely Unisat's own fault for committing funds without being certain of the BBC's decision. It is probably true that they might have been misled on the potential for DBS, either because the BBC thought they should be in new broadcasting opportunities without scrutinising the economics, and/or because DTI pushed them too hard (Kenneth Baker's enthusiasm again). However, Government was not and is not committed.
5. Withdrawal by the BBC would anyway surprise nobody - or at least it shouldn't:

- The BBC is not a commercial organisation. DBS is a new service which won't be nationwide and will not be underwritten by the licence fee. It has to be run as a commercial, indeed entrepreneurial business. The BBC is not best equipped for this. Hence, the search for a partner - Thorn EMI - who have now withdrawn because it doesn't look commercially attractive.

 - Since the original enthusiasm by the BBC for DBS - because it was new and prestigious - the picture has significantly changed with the opportunities for cable which our policies have opened up. Cable will compete to a large extent with DBS, particularly on films, etc. Hence the market prospects and economics probably look much less attractive than they did. The BBC claim the Government changed the rules, but that brings us back to the fact that we always left DBS to the BBC's judgment of commercial opportunities.

 - The BBC have always been unhappy about the Government's acceptance of the ParL Committee recommendations on standards. This chose MAC - an IBA proposal - rather than PAL which the BBC were pushing.
6. It is also premature to argue that we must proceed because the rest of Europe will leap ahead. Their plans are equally unclear.

Conclusions

- (a) Alternatives involving IBA and others should be pursued.
- (b) We should not take Unisat's threats to scrap the project as early as January too seriously. It may only be a negotiating position to push us into giving commitments.
- (c) The Government is not committed to DBS. We leave it to the commercial judgment of others. We should not intervene to override commercial judgment.
- (d) There is no need to offer interim finance.
- (e) We should avoid any panic and rushed decisions.



DAVID PASCALL

Ref. A083/3467

MR TURNBULL

Direct Broadcasting by Satellite

The Home Secretary sent me a copy of his minute of 14 December to the Prime Minister on the present state of the BBC/Unisat project.

2. I attach a minute on this subject by Dr Nicholson.

3. I gather that one of the reasons why Thorn-EMI (and the BBC) do not think that the present proposition offers a sufficiently attractive commercial prospect is that their estimates suggest that the cost to the subscriber of the satellite-receiving dish and the black box decoder which links the satellite signal to the television set come out some 25 per cent above the maximum level which it is thought that the market would bear. They would want to start transmissions with that figure set as low as possible in order to maximise numbers of subscribers. This is essentially a cash flow point: if they could cover costs for the early years, receipts in later years would enable them to recoup earlier year deficits. Joining the IBA into the partnership would not (so far as I can see) affect the estimates of the cost to subscribers; it would not therefore change the commercial prospect but it would spread the burden of financing in the early years.

4. At the World Administrative Radio Conference in 1977 we were allocated DBS capacity for four or five channels for the United Kingdom. Allocations were also made to other European countries, including Ireland and Luxembourg. American broadcasting interests are, I understand, negotiating with the Luxembourg telecommunications authorities for the right to use the satellite capacity allocated to Luxembourg. The Luxembourg satellite will cover most of England (though not Scotland). I also understand that American broadcasting interests are discussing the possibility of providing DBS on the capacity allocated to Ireland: that would cover not only Ireland but the whole of the United Kingdom. Access to the British market is one of the features that is attracting American broadcasters to Luxembourg. That access

could be by direct broadcasting from the satellites; but, given the cost of DBS receivers, it is more likely that access would be via the new cable system. Thus United Kingdom viewers are likely to be exposed to American-type broadcasting on DBS from Luxembourg and/or Ireland, which will not of course be subject to any of the restraints as to standards which would be applicable to British broadcasters. If British broadcasters were using the satellite capacity allocated to the United Kingdom, that could help to reduce the impact of exposure to satellite broadcasting from Luxembourg or Ireland.

5. This suggests that there is some national interest in keeping the British DBS project alive, so that there is a British presence in satellite broadcasting. The problem is to provide Unisat with sufficient assurances that their costs were likely to be met. If they continue to insist on the early January deadline, there is not very much time. Dr Nicholson and I are not much attracted by the idea of an ultimatum to the BBC of the kind proposed by Mr Tebbit in his note of 15 December: it would simply discourage the BBC, with or without IBA partnership, from taking commercial decisions, in order to prop up the Unisat consortium.



ROBERT ARMSTRONG

16 December 1983

W.0850

16 December 2983

SIR ROBERT ARMSTRONG

DIRECT BROADCASTING BY SATELLITE (DBS)

You asked for my comments on the minute of 14 December from the Home Secretary to the Prime Minister. Unfortunately I have not yet seen Mr Tebbit's minute of 15 December on this subject.

2. The situation revealed by Mr Brittan's minute, with the BBC expressing severe reservations about continuing with DBS, is unfortunate but fairly predictable. It is a consequence first of the major change in the broadcasting environment caused by the Government's approval of wideband cable systems and secondly of the problems that the BBC face in learning how to operate on a commercial basis. The recent history of DBS may be summarised thus:

i. The BBC, as the world's premier broadcasting organisation, has traditionally been in the forefront of new broadcasting technology. In the late 1970s, with the WARC orbital allocations agreed, satellite broadcasting appeared to be the best new broadcasting technology. The BBC wanted to have its share of the action and this, as much as the industrial considerations mentioned by Mr Brittan, caused the Government in March 1982 to approve in principle the establishment of the DBS service. At that time, and subsequently, the Government made it plain that the service would have to be self-financing, with no element of subsidy from the licence fee.

ii. All previous BBC services have been financed from the licence fee and have been able quickly to achieve a national audience; the Corporation has never had to operate in an entrepreneurial manner. Their market projections for DBS

were crude and they were slow to consider the means for collecting subscriptions from viewers and for preventing unauthorised reception. I do not know whether these problems, which a company like Thorn-EMI would have addressed immediately, have yet been satisfactorily resolved.

iii. The BBC wished to use an improved version of the present PAL standard for DBS transmissions; the Government, following the advice of the Part Committee, selected the IBA system, MAC. The BBC were profoundly hurt by this decision, which called into question their technical judgement. While accepting it in public, they have constantly sought in technical discussions to have it changed. They claim that MAC receivers will cost substantially more than those for extended PAL; industry sources dispute this and suggest that, when decryption of signals is taken into account, the advantage may even lie with MAC. I would incline to the latter view.

iv. At the end of 1982, stimulated by the IT Advisory Panel report, the Government announced that wideband cable networks were to be permitted. This created a totally different commercial environment for DBS, which the BBC had previously thought would be the only new source of domestic video entertainment. One immediate consequence was an increase in competition for rights to feature films, thereby driving up costs and creating uncertainty over the future supply of film material to the BBC.

v. Finally, negotiations with Unisat were far from smooth, and the eventual price of £12 million per channel per year was substantially more than BBC would have needed to pay a US satellite supplier. They were being asked to act commercially - but with a Government-inspired restriction on their satellite procurement.

3. Against this background of an increasingly uncertain market for DBS, a technical decision of which they thoroughly disapprove, and a rocky relationship with Unisat, it is not surprising that the BBC feel unable to proceed without some more substantial Government backing. While embarrassing, I would not consider the failure of the project a national disaster. It is far preferable to cut losses now than to be faced with a potentially bankrupt BBC in five years' time. There is a large demand for the skills of Unisat's staff and cancellation would simply recognise that technological and political developments have rendered this form of broadcasting non-viable, at least for the moment. There would, of course, be some protest from rural areas that are unlikely to have cable systems but the cancellation of the potential service is not the same thing as the withdrawal of an actual service.

4. More worrying for the BBC would be the possibility that cable systems would take transmissions from the proposed Irish or Luxembourg satellites, thus prejudicing any future market for new BBC services. (I discount the direct reception of signals from these satellites since the same economic factors apply as to the reception of BBC signals.) The Corporation seem not to have regarded cable systems as offering an immediate market of 1.4 million homes for their DBS transmissions. In my view, they should look at that possibility, and perhaps commence a pilot satellite service using a rented channel on an existing low-power satellite, transmitting to dishes at cable head-ends. This would test the market for their proposed services at relatively low cost. It would put on cable operators the responsibility for collecting revenue and it would give them a much firmer basis on which to consider the possibility of full DBS in the late 1980s in order to pick up the viewers in scattered communities and those who do not wish to be linked to a cable system.

5. The possibility of a joint venture with the IBA mentioned in Mr Brittan's minute could be a suitable alternative but the level of risk to which the BBC was exposed might still be excessive. Fundamentally, the BBC is not set up to properly assess and take risks

COMMERCIAL IN CONFIDENCE

and the problems inherent in asking them to do so are now being exposed.

Red

ROBIN B NICHOLSON

cc: Mr Gregson
Mr Brearley

16 December 1983

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PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE: THE BBC/UNISAT PROJECT

The Home Secretary wrote to you yesterday about the position that has been reached on this project. You will recollect that it was discussed in February last year by Economics Committee and, in approving the project, the Committee recognised that "the leasing of two channels from 1986 would involve the BBC in some financial risk but that the industrial advantages of developing DBS were overriding". Although there is still risk to the BBC, there are still substantial industrial benefits to be gained. The essential justification for the project has not, therefore, changed, but undoubtedly the attitude of the BBC has. I do not believe, however, that we can lightly entertain the consequences of a complete breakdown of this project. Not only would there be a public row and legal consequences involving Government, but there would be considerable damage to our relations with Industry. Nor would it help our policy of trying to encourage the private sector to fund new technological developments.

2 I should make it clear that a major factor in Unisat being obliged to withdraw if uncertainty continues is the position of the financial institutions providing the leasing finance. They



will make no commitments until a BBC/Unisat contract is signed.

The institutions wish to take advantage of tax allowances in this financial year and, if the position is not clear by early January, they will take their funds elsewhere. Inevitably the project would then collapse.

3 Coming new to this matter I am bound to say that I believe the BBC has insisted on Unisat making commitments and progress on the project at a rate and in a way which the BBC have not themselves been prepared to match. Yet the BBC deny any commitment to Unisat at all even though they have signed heads of agreement detailing penalty clauses for late delivery and which Unisat would be obliged to observe.

4 Nevertheless, I do not disagree with Leon Brittan when he says that the BBC cannot and should not be compelled to go ahead with DBS if they no longer wish to do so. On the other hand what I believe very firmly indeed is that they should be told quite plainly that in no circumstances will they be allowed to purchase satellite capacity from any other company if they decide not to go ahead. It would be intolerable for the BBC simply to leave the Government with an industrial and legal mess while they sought alternative arrangements.

5 It may be that the meeting of the BBC Board of Governors today will provide a solution to the problems but that seems



unlikely. I wish, therefore, to propose a way forward from the present difficulties, which will compel no one but cause all concerned to recognise financial and operational realities. First the BBC should be advised that they may proceed on DBS only with Unisat and they must be given a very early deadline to make up their minds and sign a contract. If the BBC does decide that they wish to proceed in some form of partnership with an independent company rather than alone, the IBA, acting as the Home Secretary's agent, should run a very quick competition to identify a partner or partners. Speed is essential not only to ensure that the project can continue but because delays will simply result in increased costs. It would be an essential condition in that competition that Unisat would provide the space segment. Those who did not wish to use Unisat would not apply. They would still be free to compete for the other channels the IBA will be offering when it is formally empowered to do so after the Cable and Broadcasting Bill is enacted. No one could therefore allege compulsion. If the BBC does not want to go ahead and no independent candidates come forward, then inevitably Unisat must founder but Government will at least have made positive efforts to secure an initiative which Government itself promoted in the first instance.

6 I am sending a copy of this minute to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Home Secretary and to Sir Robert Armstrong.

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NT

15 December 1983



PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE: THE BBC/UNISAT PROJECT

Events are moving rapidly, and there is a good deal of press speculation. I therefore thought I should offer you the following situation report.

General Background

As you know, my predecessor announced in March 1982 the Government's decision, taken primarily for industrial reasons though broadcasting considerations also entered into it, to make a start with DBS: the BBC would provide a 2-channel service and the satellite system would be provided by Unisat, a consortium of British Aerospace, GEC-Marconi and BT whose formation for the purpose the DOI (as it then was) had encouraged. The object has been to have a service in operation in autumn 1986. At the same time the Government indicated its hope that there would also be independent commercial DBS channels; we have subsequently agreed on a policy for enabling the IBA to provide DBS, and legislation to give effect to it is included in Part II of the Cable and Broadcasting Bill which has its Second Reading in the Lords on Monday next, 19 December.

Since March 1982 Unisat have been working on the satellite system, and the BBC on programming and other aspects of the service, and the two sides have been in negotiation on the details of contracts. These negotiations have, I understand, proved difficult and protracted; Heads of Agreement were signed in March 1983, but contracts have not yet been signed. One of the problems has been BBC uncertainty over the commercial viability of DBS on the basis proposed, as the shape of likely competition from cable has become clearer. Uncertainty



over the transmission standard for DBS has been another factor: my office reported on this to yours on 18 November (and since then I have initiated the approach to French and German Ministers mentioned in that report).

A Partnership?

When I became Home Secretary and took stock of DBS with the new Chairman of the BBC I formed the view, to which Mr Young proved sympathetic, that it would be desirable for the BBC to seek a commercial partner with whom to share the financial risk. The BBC reported to me in September that they were in confidential discussions to this end with THORN-EMI. Last week they reported that Thorn-EMI, though keen on some form of involvement in DBS, preferably with the BBC, did not consider that the proposition put to them by the BBC offered a sufficiently attractive commercial prospect.

Faced with this reaction the BBC are now considering urgently the options open to them: the Board of Governors meets tomorrow for this purpose. Mr Young has told me in confidence that one option, although they would be reluctant to adopt it, is to conclude that, for the present, the BBC cannot proceed with DBS. Another, which he clearly favours, is to explore urgently with the IBA the possibilities of a partnership with them and their DBS contractor(s) when chosen, retaining the Unisat system: this would share the commercial risk and might reduce costs somewhat. The BBC envisage a 3-channel service, one for each operator and a third run jointly. My personal judgment is that the IBA might well be interested in such a partnership - though whether terms could be mutually agreed is another matter. A complication is that, as things stand and even under our legislative scheme, the IBA cannot enter into an advance financial commitment. Only its contractor can do that, and a contract cannot be entered into until the Bill is law, though it may be possible to fore-shorten the process a little by encouraging the IBA to take preliminary steps, e.g. to advertise a contract, on a provisional pre-statutory footing.



Problems of Unisat

The BBC's negotiations with Thorn-EMI have, since September, been their chief reason for reluctance to sign contracts with Unisat. Meanwhile the scale of Unisat's financial commitment to the project has been increasing, as has their anxiety about the future of the project. They sought a meeting, which took place this morning, with the Secretary for Trade and Industry and myself. At it they said:

- (i) their financial commitment to the project, on the terms agreed subject to contract, now amounted to £50M and was increasing. It would escalate more rapidly from January. They could not continue to incur costs on this scale without a firm BBC commitment;
- (ii) nor, without that commitment, would their arrangements for lease finance survive much longer;
- (iii) if no commitment was forthcoming by early January, they would be obliged to terminate the project, redeploy or lay off the work teams, and pursue the BBC for the costs incurred. Unisat believe they have a legal claim against the BBC: the BBC do not.

I told Unisat in confidence of the possible BBC approach to the IBA, which I said I would encourage and seek to expedite, though I could not and would not compel. Unisat showed interest in this prospect of keeping the project afloat. However, they reiterated that they could not wait until the IBA had advertised and found a DBS contractor to share risk and costs. In their view they would still need, from early January, a guarantee that their costs, past and continuing, would be met: it would be for the BBC to share this



burden with its partner when selected. Unless, they suggested, the Government could underwrite the expenditure on an interim basis.

Outlook, and Government's Position

We face the possibility of a public row and perhaps legal action in which the BBC and Unisat will blame each other and perhaps the Government. Whatever the rights and wrongs of past decisions and transactions between the BBC and Unisat, the objective now, in the view of the Secretary of State for Trade and Industry and myself, is still to keep the DBS show on the road if we can do so without unacceptable consequences. As a Government we have set some store by being in the lead in Europe in the development of space technology for broadcasting. If it were not for Unisat's immediate financial problem the best course might be a pause during which the BBC, the IBA, and a contractor chosen by the IBA worked out a shared project and negotiated afresh (on satellite space) with Unisat, or conceivably with other British contractors. Some delay is inevitable anyway because enough sets will not be in the shops by 1986. But Unisat tell us that they cannot keep going unless they are assured by January of a firm BBC commitment.

If the BBC decide tomorrow against an approach to the IBA, or if they are rebuffed, then I see little if any alternative to a collapse of the immediate project with the unwelcome and embarrassing consequences it would bring. However, I think it more likely that the BBC will decide to approach the IBA, who in principle will be interested though they may not like the particular BBC proposal. What I have difficulty in envisaging is how, even with maximum goodwill on all sides, Unisat can be given the assurance they seek in the timescale they require. I doubt if the BBC would, or should, be willing to guarantee both past and future Unisat costs in advance of having any certainty of a joint venture with the IBA and its contractor; I would not think it right to urge them to do so against



their better judgment. Nor is it likely that the IBA or any contractor chosen by the IBA would be easily convinced that the Unisat scheme and the terms negotiated between the BBC and Unisat are the best available and have to be accepted by them as newcomers to the venture. I am sure that the Government ought not to step in as Unisat's guarantor or give financial guarantees to either broadcasting authority to persuade them into commercial risks from which they would otherwise shrink.

The outlook, therefore, is bleak. Nevertheless I am confident that the best course, assuming a BBC decision to approach the IBA, is to encourage and hurry that along, in the hope that, in a rapidly moving situation, Unisat may perceive grounds for keeping their side of the project going.

I will report further significant developments.

I am sending a copy of this minute to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

L.B.

14 December 1983



10 DOWNING STREET

Prime Minister

A bleak report on the
prospects for Unisat.

However, Unisat has its
critics - and if it were
to collapse, it could open
the way for alternative
proposals. You may for
example recall the Bitsat
proposal - an account of
latest developments is at
flag A. mt

Prime Minister

Michael Schölar put this to you just before he left, though it is not clear from the papers whether you had an opportunity to read it.

Summary of paper submitted to the BBC September 1983.

2 SUMMARY

- DBS has far better market prospects than cable in the UK. The BBC has a once-for-all chance to pre-empt both cable and commercial DBS by mounting the first effective DBS channels. page 5
- Successful market entry by the BBC depends crucially on the reliability, timeliness and economy in satellite distribution page 6
- The BBC has to have absolute confidence that the satellite system will meet its full requirements on channel performance and on launch dates page 7
- Power output should be kept high, as there are no real economies in lower power and high standards of introductory customer reception are essential page 7
- The BBC needs to avoid being locked into any an uncertain project containing high technical risk page 8
- The BBC also needs to avoid forced compromises late in the satellite programme on performance or dates page 8
- Full contractual penalties should apply. There has to be total confidence in the system suppliers page 9
- Unisat has major disadvantages, stemming from the way the Government prompted its formation. There is conflict of role with the system suppliers acting also as system organisers, and with British Telecom as user and operator page 10
- The suppliers are out of their depth in DBS technology page 10
- Unisat represents a completely new spacecraft design as well as advanced new payload technology. This creates enormous risk of delay or technical compromise page 11
- The whole project was initiated on the basis of scant definition of the mission and no real estimation of costs page 11
- The suppliers are under heavy pressure on other programmes, especially from the European Space Agency who are staffed to insist on proper progress, and this conflicts with Unisat page 12
- By contrast the BBC has no such control on Unisat page 12

There is virtually no chance at all that Unisat could meet the BBC requirement by autumn 1986. The BBC will therefore lose all its pre-emptive advantage page 13

It is now entirely plausible that the BBC could be delayed by being locked into Unisat, while the commercial DBS channels overtake with a US system page 13

The only sensible alternative is to organise a satellite system geared specifically and exclusively to the BBC's needs, with no question of dual mission for telecoms capacity page 14

The proposed alternative system would use an existing design of spacecraft that will be space-tested well before Unisat is theoretically intended to fly page 14

This eliminates the main project risk. The payload design and channel performance would be defined absolutely by the BBC page 14

There would be as high a level of UK content as applies with Unisat page 15

The alternative can proceed immediately, solely on the basis of commitment by the BBC page 15

The alternative would meet all the technical needs of the BBC, and the BBC would have a full window into the entire project page 16

The BBC would have all the normal contractual safeguards that apply in the world satellite industry, and if necessary even more stringent conditions on delivery dates could be applied page 16

The system would be organised by a UK-owned satellite operating company, and this company would give the BBC a lease on channels at a fixed price with no escalation through cost over-runs or inflation page 16

The system would have a 10 year design life, with options for the BBC to continue usage for any remaining life and to require provision of a follow-on system of identical performance page 17

Assuming no other usage of the system beyond the BBC channels, the fixed price would be twelve million pounds per channel year page 18

If other uses of spare capacity on the system arose, the channel price to the BBC would be abated. It is likely that this could lead to savings of at least seventy million pounds over the life of the system page 18

The equity composition of the satellite operating company would be structured to give the BBC the benefit of tax advantages. Several major UK companies would be willing in principle to join the venture to give financial and managerial backing page 19

Satellite project management expertise would be brought in as necessary on a contract basis page 19

At this stage neither British Telecom nor Mercury are intended to be involved, but if for political reasons this became necessary they would not have control page 19

Absolute confidentiality would be maintained in negotiations with the BBC, and it is fully recognised that careful political handling is essential page 20

If necessary, British Aerospace would be given the appearance of still leading the project, and would be likely to be major sub-contractors to ensure adequate UK content. Other major UK firms could also benefit page 20

These proposals can be discussed in detail with the BBC immediately, on a confidential basis. So long as final agreements were reached by December, there is absolute confidence of system launch by June 1986 page 21

Britsat

Airwork House 35 Piccadilly Suites 101-110 London W1V 9PB Telex 23116 Telephone 01-439 8985

Andrew Turnbull Esq
Private Office
10 Downing Street
London S W 1

13 December 1983

Dear Mr Turnbull,

C/f pps?
NO.
GR?

pa
DMS
14/12

UNISAT

Further to my letter of 12 December, I enclose for your information a copy of a letter we have just sent to the Treasury. You will see that we are clear that supporting Unisat from public funds could be a very large burden indeed, quite out of line with current public expenditure policy.

The only way that our alternative project can be properly assessed by the BBC, and subsequently by Government, is for the Heads of Agreement with Unisat to be scrapped. Until then, the BBC are legally prevented from negotiating with us.

There is very little time left to get our project under way for a launch by the beginning of the 1986 TV season, given the long lead-time for satellite building and delivery. The sooner the BBC are freed from Unisat, the sooner they can look at the alternatives. Otherwise we are already being asked by the Irish to plan with them on their own if there is no progress with the BBC, and this would be very bad for the UK on all counts.

Now that the Unisat decisions are in front of senior Ministers, we should be grateful if you would bring this letter, today's letter to the Treasury, and our letter to you of 12 December to the Prime Minister's attention.

Yours sincerely

John Anderson

(J G Anderson)

CONFIDENTIAL

Richard Wilson Esq
H M Treasury
London S W 1

13 December 1983

POSSIBILITY OF UNISAT SEEKING SUPPORT FROM PUBLIC FUNDS

We spoke earlier today about this matter.

Michael Scholar telephoned me on Sunday to pass on a request from Andrew Turnbull at No.10 for information about progress on our alternative DBS project, which we had started to plan when it became clear that there were fundamental difficulties with Unisat. I enclose for your information a copy of the note I sent to Andrew Turnbull. You will appreciate that we are still very concerned to guard the commercial confidentiality of the alternative project proposals, but it is important to stress that we have a solution that could quickly satisfy nearly all the commercial interests of the BBC and 'UK Limited' including the aerospace firms involved in Unisat.

It is clear from the press and from our own soundings that last-minute attempts are being made to rescue Unisat, if only because there could be considerable embarrassment for the Government if the BBC drops DBS. The Government could readily drop the C-MAC requirement, or at least fudge the issue for the time being, possibly blaming the French, as this would cost nothing and most of the manufacturers now concede that C-MAC would depress the market for receivers and thus the potential revenue. It is this factor, together with Unisat, that is stopping the BBC from proceeding.

The more difficult problem is to free the BBC from the cost and risk burden of Unisat. Unisat was 'devised' by the DTI, and has always been an unnatural and forced subsidy of the UK aerospace industry (and many overseas subcontractors) in an attempt to catch up with current US commercial satellite products and designs. In practice, there would be no order apart from Britain for the Unisat design, so the project has yet another resemblance

Pa
DMS
14/12

to Concorde. The charging of this subsidy to the BBC as prime user of the system is the main cause of the non-viability of DBS for the BBC.

The alternative project, which has involved design work by top-flight US engineers as well as considerable financial planning, represents a more rational approach. It gives the BBC a 40% cost reduction together with total confidence on technical performance and on the delivery schedule, while retaining as much UK content by value as applies with Unisat. We and only we could now get Britain into DBS operations quickly, and thereby create a new mass market in customer reception equipment and installation for UK firms. This customer equipment market will be worth far more than the satellite system itself.

It would appear to us to be very ill-advised for the Government to further prop-up British Aerospace with the Unisat effort, concurrent with the request for some 400 million pounds being sought for the Airbus. As stated above, there will be no follow-on orders so support for Unisat can hardly be treated as 'launching aid', and in any event both British Aerospace and GEC-Marconi are over-committed to work on other satellite projects including ESA projects, Skynet 4, and huge sub-contracts for Intelsat VI. There is no danger in any real sense of job losses if Unisat were dropped, by comparison with the Airbus issues.

If public funds to be committed in haste over the next few days to Unisat, this could prove to be a very open-ended commitment since Unisat could never thereafter be abandoned. The Government might even face the need to cover the costs of any failure on the part of the BBC in getting their programming and marketing properly organised.

Our detailed figures, derived from Unisat's own cost figures, show that it would require some 150 million pounds even without cost escalation to square the figures. Looked at another way, Unisat had it proceeded would have cost the Treasury some eighty million pounds in lost tax revenue.

British Telecom will be bearing their large share of the inevitable losses of Unisat, (and this would have to be brought out in the prospectus next year), but in addition BT are paying an extremely high price for use of part of the Unisat transmission capacity and have no clear plans for marketing this capacity. Therefore there is little chance of enough counterbalancing revenue to set against their annual costs of the transmission capacity. This is a matter that should have been brought out to the DTI and to the Treasury under the normal processes of giving statutory approval to BT's capital expenditure plans, but we doubt whether any such figures have been tabled.

By contrast, the alternative project will provide tax revenues of over one hundred million pounds over the same system life. Therefore the 'opportunity cost' of supporting Unisat with public funds would be approaching two hundred million pounds, plus possible depression of the sale price of British Telecom. These costs to the public purse could go far higher if direct subsidies were made, and if cost escalation on the project continued.

In other words, supporting Unisat could have a cost in real terms to the UK taxpayer that actually exceeds the total project cost that we have planned and for which finance is on offer from the private sector. No doubt the Treasury will draw its own conclusions, and we feel it is the responsibility of the Treasury to examine more closely with us, privately, the figures we have outlined.

We are, we repeat, most anxious to protect the commercial confidentiality of our project from discussion with officials in other Departments, especially officials in the DTI who are effectively 'captive' to the aerospace interests. However, you will see from the figures given above that we have felt it only proper to advise you of the heavy financial costs of supporting the Unisat venture. We have full substantiation of all these figures and would be available to discuss them with you or your colleagues at short notice if required.

I am copying this to Michael Scholar and Kit Chivers. I will be available on 543 3676 for the next two days if you need to contact me, and we would be available to meet Treasury officials at any time this week.

(J G Anderson)

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London S W 1

12 December 1983

Dear Mr Turnbull,

Michael Scholar telephoned me last evening to say that you were enquiring about the alternative satellite system to Unisat on which I had given him brief details some weeks ago.

The position at that time was that we had advised the Prime Minister that planning was proceeding on an alternative project, since it was abundantly clear that Unisat could not do the job required by the BBC efficiently and economically. We had specifically requested, on grounds of commercial confidentiality, that there should be no intervention with the DTI or with the Home Office : the intention was merely to advise the Prime Minister that an alternative was being framed.

Michael Scholar tells me that you have not seen the earlier papers. For reference I enclose a copy of a summary paper that we had put to the BBC in September, outlining the fundamental problems of Unisat and explaining the main features of our alternative proposals.

We have been unable to negotiate directly with the BBC since they have been legally bound to talk only to Unisat under the Heads of Agreement entered into in March, after twelve months of prior negotiations. However, the situation we have now reached is that our alternative project has been thoroughly checked out on all technical and financial details, and on this basis we have recently submitted an unsolicited offer to the BBC.

This offer is based on full technical evaluations with system suppliers and launch agencies, with detailed costings of all aspects of the project. It has further been established that the entire project can be financed by the City of London.

For the BBC, our offer gives :

a guarantee that the system will be delivered on time and will meet all their technical performance requirements

an effective price level 40% below Unisat, thereby avoiding jeopardy to the BBC's commercial future

For 'UK Limited', our project offers :

a shared DBS system that will cater for the requirements of the BBC, the IBA franchises, and RTE, with all parties benefitting from the economies of scale. (RTE have strongly welcomed our proposals, and the IBA are now showing strong interest as well)

as much UK content by value as Unisat

a project that will show profit and therefore tax revenue to HMG (whereas Unisat will make losses of about one hundred million pounds)

the chance of technical collaboration with Eire on a major joint project

possibilities of a follow-on telecommunications satellite system, again with prospects of collaboration with Eire

Most importantly, the new project is a private enterprise venture rather than an artificial construct of Government. It would enable Britain to be the first European nation in commercial space operations, and would greatly strengthen the country's technological capability.

Finally, the project avoids the increasing risk that Eire will go ahead on its own with up to five DBS channels backed by American money and programme makers. This would risk giving total coverage of the UK with lowest-common-denominator TV, damaging the standards that have been set by decades of development of public broadcasting in Britain.

If you need any further information, please call me on 543 3676 at any time.

Yours sincerely

John Anderson

(J G Anderson)

NBPM
AT 7/12MR TURNBULL7 December 1983CABLE FRANCHISES

Nigel Lawson is aware in general terms of the problem which has arisen on 100% first year capital allowances. However, Treasury officials are not intending to put any specific proposals up to him until the Inland Revenue comes to a decision on the eligibility of cable investment for allowances.

This decision is expected shortly and I shall keep you informed of developments.

DUP

DAVID PASCALL



10 DOWNING STREET

David Pascal

What is the answer to X?

Answer

CABLE FRANCHISES

mf

Eleven consortia have been conditionally selected from thirty-seven applications to run the first pilot cable franchises. These consortia are planning to provide cable services to nearly 1 million homes in the City of Westminster, Ealing, Croydon, Windsor, Guildford, Swindon, Coventry, South Liverpool, North Glasgow, Aberdeen and Belfast.

This is an encouraging outcome and a decisive step in our cable policy.

Three general issues have arisen following these announcements.

Capital Allowances

The cable consortia have assumed that they would be eligible for 100% first year capital allowances on the £200 million of investment needed for installing cable. However, the Inland Revenue have now expressed reservations despite apparent precedents.

Noted
knows
of this
pressure
not

If the Revenue's decision goes against the consortia, this is likely to delay the spread of cable and in extreme cases lead some companies to reconsider their commitment. Legislation would probably be needed to correct the position.

X

The only party to benefit from the uncertainty is British Telecom who are consortia members in five out of the eleven successful franchises. With BT ducting already in place, these consortia's financial projections are less heavily dependent on tax allowances.

BT Involvement

At first sight, the presence of BT in five of the successful consortia and the absence of Mercury is surprising.

Mercury did not bid in any of the consortia on the grounds that additional equity investment would not be appropriate in view

of their own commitments. However, they are actively discussing with five of the six non-BT consortia a contractual relationship for the supply of Mercury services through the cable networks. There is no need for concern at this stage that these developments indicate an inability on the part of Mercury to fulfill our hopes that they will develop into a viable competitor to BT.

Selection of Consortia

The main losers in the awards are the big existing cable television companies with the exception of Thorn EMI. Rediffusion applied for four pilot licences and succeeded only in Guildford, a small franchise covering 22,000 homes. Visionhire applied for four licences and got none. These companies are now complaining about the Government's decisions.

Our position is clear. The White Paper states clearly the criteria on which applications were to be judged. The applications were analysed by the Economist Intelligence Unit and final recommendations were made by Three Wise Men appointed as independent assessors.

Rediffusion and Visionhire simply did not measure up to the criteria, particularly in terms of the most positive contribution to the application of advanced technology. Only where advanced technology was offered by Rediffusion in Guildford did their applications meet our requirements.

All companies will be able to apply again for the larger franchises from the proposed Cable Authority. However, at this stage of cable's development the need for advanced technology is an essential element to ensure the future development of cable systems.

DLP.

DAVID PASCALL

CONFIDENTIAL

cc-NO



Foreign and Commonwealth Office

London SW1A 2AH

1 December 1983

abpm
JMS
2/12

Dear Hugh,

Cable Bill

Sir Geoffrey Howe agrees with the action proposed in the Home Secretary's letter of 4 November to the Secretary of State for Defence. Indeed if the Government were to suggest taking a reserve power of censorship over Cable it would not in our view sit well with the line we take in UNESCO and similar bodies over freedom of speech.

I am copying this letter to the Private Secretaries to those who received the Home Secretary's letter.

Yours sincerely,
Peter Ricketts

(P F Ricketts)
Private Secretary

H H Taylor Esq
PS/Home Secretary

CONFIDENTIAL

BROADCASTING: Direct Pt 4

Prime Minister (4) all
To note AT 1/12
30 November 1983

MR TURNBULL

CABLE FRANCHISES

mf

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knows
of this
presume
not*

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All companies will be able to apply again for the larger franchises from the proposed Cable Authority. However, at this stage of cable's development the need for advanced technology is an essential element to ensure the future development of cable systems.

DLP.

DAVID PASCALL

RESTRICTED



QUEEN ANNE'S GATE LONDON SW1H 9AT

29 November 1983

2 Jim,

*nbpm
JWS
29/11*

Thank you for your letter of 23 November.

The draft Bill has now been circulated to L Committee and I am satisfied that it provides the sort of safeguards which you are seeking. Clause 9(1)(a) requires the Authority to do all that it can to secure that all licensed cable programme services include nothing which offends against good taste or decency, is likely to encourage or incite to crime or to lead to disorder or to be offensive to public feeling. While the Authority will not normally see programmes before they go out, it will, under clause 15(a), have the power to intervene and direct that a particular programme should be excluded from a service before it is shown. Non-compliance with a direction can lead to the revocation of a licence under clause 17(1)(a).

I was glad to be able to agree that Ulster Cablevision's proposals for Belfast could be included in the list of those which we should be willing to license subject to further discussions on some specific points. Assuming that the project comes to fruition, the substantial involvement of Ulster people (through UTV) on the programming side should be a way of ensuring that local risks and susceptibilities are kept fully in mind.

Copies of this letter go to recipients of yours.

y
car,
car

The Rt Hon James Prior, MP

RESTRICTED

BROADCASTING: Cable
PX 4

29 NOV 1989



010

CC/NO.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

29th November 1983

Dear Saunders, *D* *29/11*

CABLE AND BROADCASTING BILL

The Legislation Committee will be invited at their meeting tomorrow morning, 30 November, to agree to the immediate introduction of this Bill in the House of Lords with a view to obtaining Second Reading before Christmas.

Subject to that agreement I should be grateful if you would arrange for the Bill to be handed in for introduction by Lord Elton after Questions tomorrow and publication at 10 am on 1 December.

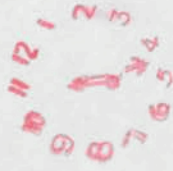
I am sending copies of this letter to Willie Rickett (No 10) Richard Watson (Cabinet Office) David Heyhoe (Lord Privy Seal's Office) Murdo Maclean (Chief Whip's Office, Commons) David Beamish (Chief Whip's Office, Lords) and Brian Shillito.

Yours sincerely,

T. C. Morris
T. C. MORRIS
Parliamentary Clerk

Broadca~~st~~y: Drint Pt. 4

29 NOV 1983



From: THE PRIVATE SECRETARY



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

29 November 1983

Dear Richard,

CABLE AND BROADCASTING BILL

nb pm
DWB
29/11

The Home Secretary has asked me to write to record that he is entirely content with your Secretary of State's suggestion concerning the extension of the 'D' Notice guidance system to cable companies. I understand that an official from the Broadcasting Department here has been in touch with the Secretary of the 'D' Notice committee about the implementation of this.

Copies go to the Private Secretaries to the recipients of the Home Secretary's letter of 4 November, and the Lord Privy Seal.

Yours truly

Michael

M J GILLESPIE

R C Mottram, Esq

BROADCASTING : Cable

PK4



29 NOV 1983

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

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

November 1983

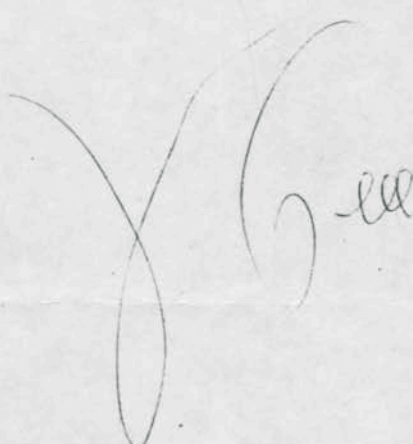
*nbpm
Dubs
29/11*

CABLE BILL - RESERVE MINISTERIAL POWERS

Thank you for sending me a copy of your letter to
Michael Heseltine of 4 November.

I sympathise with your reluctance to take powers specifically
to regulate transmission hours for cable television. But I do
not wholly share your confidence that the Energy Act 1976
already contains adequate powers for this purpose. I have
asked my legal advisers to discuss the details with yours.

I am sending copies of this letter to the recipients of yours.



PETER WALKER

CONFIDENTIAL

Broadcasting : Direct Broadcasting / Cable . A4

29 NOV 1983

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67890
12345
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12345
67890

CONFIDENTIAL



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

28 November 1983

Dear Leon

*nbpm
DMS
28/11*

CABLE BILL: INCITEMENT OFFENCE AND RESERVE MINISTERIAL POWERS

Thank you for your letter of 11 November proposing to include in the Cable Bill a free standing offence of incitement to racial hatred. I agree that it is right to take the opportunity to deal with this in the Cable Bill. It may be difficult to justify not extending it to BBC and IBA programmes, but no doubt you will be ready to explain that by reference to the public order review.

I see that Michael Heseltine, Jim Prior and Norman Tebbit have now commented on the conclusion in your letter of 4 November that it would be inappropriate to establish reserve Ministerial powers of control over the duration and content of cable programmes. So far as the content of the Bill is concerned, there is clearly general agreement with your view, but I think it would be helpful if you could try to resolve the outstanding points Michael and Jim raise before the Bill comes to Legislation Committee later this week.

I am copying this letter to the Prime Minister, other members of H Committee, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Energy, Defence and Trade and Industry and to Sir Robert Armstrong.

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Department

CONFIDENTIAL

Broadcasting: Direct Broadcasting K46

28 NOV 1994





SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP
Home Office
Queen Anne's Gate
London SW1

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

23 November 1983

*nb pm
DWB
23/11*

Leon Brittan

CABLE AND BROADCASTING BILL

Thank you for sending me copies of your letters of 4 and 11 November, to Michael Heseltine and Willie Whitelaw respectively.

As I indicated in my letter of 25 April^{pt 3} to Willie Whitelaw which commented on the White Paper on Cable Systems and Services, I am concerned that the arrangements for monitoring and vetting programme content should provide a reliable means of preventing terrorist propaganda or other material of a nature likely to offend tastes and sensitivities in Northern Ireland.

I was reassured by Willie Whitelaw's letter to me of 5 May in which he stated that the Bill will require the Cable Authority to ensure that nothing is included in programmes which is likely to encourage or incite to crime or lead to disorder or to be offensive to public feelings. I should, nevertheless, like to take this opportunity to stress the importance I place on minimising the risk that cable subscribers in Northern Ireland will be subjected to subversive or otherwise offensive material. I would not wish to press for the inclusion of reserve Ministerial powers in the forthcoming Bill on Northern Ireland's account alone. But I should welcome confirmation that you remain satisfied that the arrangements in the draft Bill will in themselves provide adequate protection against the risks I have outlined.

I agree with your proposal for a free standing clause in the Bill to make Cable subject to the law on incitement to racial hatred.

/...

CONFIDENTIAL

I am sending copies of this letter to recipients of yours.

Yours
—
KL

Broadcasting
Direct,
pt 4

23 NOV 1985

11 12 1 2 3 4
5 6 7 8 9 10

pa
DMS
30/11

PRIME MINISTER

CABLE BROADCASTING

You asked whether cable broadcasting will be subject to the ordinary law on obscenity and libel. The answer is yes. The Cable Bill will include specific provisions to this effect.

ms

DMS

22 November 1983



10 DOWNING STREET

From the Press Secretary

21 November 1983

Mr Ingham,

The Prime Minister has asked me to thank you for sending her a souvenir menu of the 10th anniversary dinner of ILR, containing her message.

I have fed in all the material I have received from both yourself and Barbara Hoskings and I know that we are in touch with the Home Office.

James Stewart
Bernard Ingham

BERNARD INGHAM

The Rt Hon The Lord Thomson of Monifieth, KT,
Chairman,
Independent Broadcasting Authority.

x ref.

D. Barclay

*JMS 21/11
For broadcast file*

psc. (with DB)

Press office

PPU. R14/11



INDEPENDENT BROADCASTING AUTHORITY

70 Brompton Road London SW3 1EY Tel. 01-584 7011 Telex 24345

THE RT HON THE LORD THOMSON OF MONIFIETH, K.T.
Chairman

11th November 1983

Dear Prime Minister,

Thank you for your letter following our lunch together. It was a great pleasure to see you last week, and we were grateful to you for giving up time in a particularly busy day to discuss with us issues of broadcasting policy.

As I said then, we were particularly encouraged by your generous message on the 10th Anniversary of ILR. Last night we celebrated the anniversary with a Dinner at the Mansion House with Prince Charles as our main speaker. It was a splendid occasion and I enclose a souvenir menu in which we were proud to reproduce your message.

We were very interested in the reservations you expressed about the contract procedures and how these had operated in the 1980 round of ITV contract renewals. The programme contractors are moving into an era of increasing competition with the growth of cable and the possibility of DBS services. If they are to make the best use of their resources, they need to plan ahead. It is becoming increasingly questionable whether the public interest will be best served in the years to come by maintaining an 8 year limit on contract renewals, accompanied by mandatory readvertisement, either for ITV or (even more) for ILR. We are considering possible alternatives and will put forward some ideas to the Home Secretary in due course.

Following your visit we sent a briefing note on the MAC transmission system to Bernard Ingham. We appreciate the desire to hold back on the decision about the detailed MAC specification in an attempt to keep in step with the French.

.../Nevertheless

Nevertheless industry cannot make a start on the design of the integrated circuits and receivers until the decision is announced. We are convinced that there would be a clear advantage in an early decision to go ahead with MAC which would overcome the doubts that exist about the DBS transmission standard the UK will adopt.

Yours sincerely,
Robert Lawson

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London,
SW1.

From: THE PRIVATE SECRETARY

3 pp's



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

18 November 1983

Dear David,

Thank you for your letter of 8 November about the Cable Bill.

The Cable White Paper made clear that the Bill would remove any doubt which might presently exist as to whether the law on obscenity applies to cable. The reasons why you were led to believe that the answer to the Prime Minister's question might not be straightforward relate solely to the drafting of the relevant provisions. For example, it is not possible simply to apply the Obscene Publications Act since they penalise on publication of an obscene article and in the case of the cable distribution of a live programme there would be no "article" as such. More detailed provisions are therefore required. Nevertheless, the short answer to the Prime Minister's question is that the Bill will make cable programmes subject to the law on obscenity and also to the law on libel.

Yours ever

Mike

M J GILLESPIE

D Barclay, Esq

Blondatsmy
huk Brøelcang
pt 4.



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 21/1

18th November 1983

*DWS
23/11*

Thank you for your letter of 4th November about the Cable and Broadcasting Bill, and your conclusions on the question of reserve Ministerial powers.

I note your assessment that we should not seek to include provision for such powers in the Bill; and I am content that we should proceed in the way you propose. I would however make one point about 'D' Notices. I assume that cable programmes will fall into the same category of publication as those of the BBC and IBA, and I would therefore expect that cable companies, when established and operating, will receive and be expected to conform to 'D' Notice guidance on the same basis as other broadcasting organisations.

I am sending copies of this letter to the copy-addressees of yours of 4th November.

Michael Heseltine

The Rt Hon Leon Brittan MP

Broadcasting,
Direct, P-4

R1 NOV 1983

11 12 1 2 3
4 5 6 7 8 9

From: THE PRIVATE SECRETARY



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

CLE

18 November 1983

nbpms for now.

Please bf on 6 Dec

so that I can ask the

HO if there has been any more progress.

Dear David,

DBS TRANSMISSION STANDARDS

DMB
23/11

In your letter of 9 November you asked for a short note setting out the present position on European acceptance of the C-MAC system.

... As you will see from the attached note, prepared in conjunction with the DTI, the present situation is in a state of flux, but we thought an interim note might be helpful. We shall report further developments.

I am sending a copy of this letter to Peter Ricketts (Foreign and Commonwealth Office), Steve Nicklen (Department of Trade and Industry) and to Janet Lewis-Jones (Lord President's Office).

Yours ever

Mike

M J GILLESPIE

D Barclay, Esq

DBS TRANSMISSION STANDARDS: C-MAC AND EUROPE

After publication and acceptance of the report of the Part panel, efforts were put in hand, inter-governmentally and through the European Broadcasting Union, to secure acceptance of C-MAC as a European standard. European acceptance would be of great advantage to this country in terms both of equipment manufacture for a larger market and broadcasting to a larger potential audience. Conversely if other European countries adopted a different standard our DBS would be in difficulties.

2. These efforts had a measure of success. The European Broadcasting Union recommended to its members adoption of the C-MAC vision system with the French packet sound system as the transmission standard for DBS services. However the French and FRG governments, who are not constrained by the need to start public satellite services in 1986, were reluctant to commit themselves. We were unable to press matters to a conclusion because there has been a revival of domestic uncertainty about the transmission standard and the BBC have been engaged in highly confidential discussions with Thorn-EMI (to which Sir A Part is not privy) with a view to operating DBS services in partnership which could result in significant planning changes.

3. In an attempt to resolve doubts and difficulties, we, the French and the Germans agreed back in the summer to tripartite working groups to study three particular problems: patents; receiver costs; and transmission on cable systems. These working groups (in which the DTI, but not the Home Office, play a part) have made considerable progress but have not formally completed their work.

4. However, in late October a senior French official suggested to our Embassy in Paris that the French were now ready to agree on C-MAC, despite the incomplete state of the work of the working groups, if a high-level Ministerial approach were made to them.

5. Because both the French and German administrations have hitherto been arguing against bringing the issue to a head, the FCO are probing the degree to which the latest French message represents the views of other Ministries concerned and whether they intend that we should speak similarly to the Germans.



6. A reply from Paris is expected shortly. In the light of it the Home Secretary and Secretary of State for Trade and Industry will consider urgently the expediency and tactics of a high-level approach to the appropriate French and German Ministers.

Blond Cassin's
Direct Broadcasting
by Satellite
Pt. 4





10 DOWNING STREET

MR BARCLAY

*Cff : Please associate
with my request
for Ho advice,
Done*

In the context of your request ^{17/11}
for briefing on DBS, you should
have this record of the Prime
Minister's lunch with the IBA
- a record prepared by IBA.

B. INGHAM

17 November 1983

Internal note of discussion at lunch with the Prime Minister 31.10.83

PRESENT IBA: The Chairman, Mr. Whitney, Mr. Thompson, Mr. Robson, Mr. Rogers, Mrs. Littler, Mr. Glencross, Miss Hosking, Mr. Rook, Mr. Blyth.

The Prime Minister, Mr. Bernard Ingham.

DBS

1. We pressed the need for a decision on MAC. (The PM may not have been wholly clear what was being referred to; but she indicated to Bernard Ingham that this was something that needed to be followed up.) Secretary's Note: A briefing note was subsequently sent to the Prime Minister's office. A copy is attached.

Channel 4(a) Finance

2. The PM referred to what she had heard of Channel Four's expenditure 'threatening ITN'. Her remarks indicated that she believed that Channel Four raised its own revenue and the ITV companies made up the difference.

3. We explained to her how the budget was determined; that revenue attributable to Channel Four had never been expected to match the subscription in the early years; and that Channel Four had greatly increased the independent sector, which could in turn put downwards pressure on ITV programme costs. Channel Four did not threaten the funds available for ITN. As for the drop in levy, about £10m of this was attributable to the Government's own measures to help fund S4C. In an increasingly competitive world the levy was likely to fall even if Channel Four had not been in existence. It was an excess profits tax, and excess profits were in future unlikely.

(b) Programmes

4. The PM commented adversely on the standard (not bias) of Channel Four programmes. (Later she spoke of the 'mixed quality' - some good, others bad.) We agreed that quality had originally been variable, but expressed the view that the Channel was doing increasingly well.

Programmes generally

5. The PM said she thought programmes on Saturday evening (normally the only time she could watch) very poor. She particularly disliked violent programmes (sex was not mentioned so emphatically.) She referred to the threat posed by video, which she was convinced needed to be controlled - as a matter of public policy, not of censorship. She doubted if Graham Bright's Bill went far enough. She would like to see the Obscenity Acts apply to all media, including broadcasting. She would be arguing further with the Home Office about that.

/IPA/Equity

IBA/Equity

6. We referred briefly to the effects of the dispute on Channel Four and TV-am. The PM expressed her concern that bodies which were not parties to the dispute might suffer. She regretted that the law did not provide redress.

Contract process (ITV and ILR)

7. The PM said that she had felt alarm at the powers possessed by the IBA in 'taking away' franchises. Had Parliament subsequently altered the position? She touched at first on the idea of legal appeal against the IBA's decision, but subsequently appeared to put more weight on the idea of longer contract periods. She expressed concern at the idea of shareholders losing everything as a result of the IBA's arbitrary judgement. We told her that in practice it was the managers, not the shareholders, who suffered. (The deprivation of those who never got a contract, as opposed to those who lost one, was not touched on.) We expressed strong support for the idea of longer contract periods, and for removal of mandatory re-advertisement. We also explained the advantages, in ILR, of the 'rolling' reviews by the IBA. She seemed receptive to this point for ILR and possibly to understand the advantages of rolls at the IBA's discretion, by contrast with compulsory re-advertisement under the statute.

Radio (ILR and INR)

8. The PM expressed her own preference for radio over television. She enjoyed taking part in radio phone-ins. She did not retract her praise for ILR in her message for the 10th birthday, and agreed that ILR was a success. Family evidence suggested to her, however, that stations paid contributors badly. We touched on the programming and economic merits of INR, and she did not demur.

Parting remarks

9. The PM remarked on the fact that neither the BBC nor ITV was prepared to take up the proposal for the Laurens van der Post programme when it was offered to them. She decided to go ahead with it on spec, and it was after it was made that ITV took it.

10. The PM also remarked that it appeared that broadcasters who openly supported her election campaign subsequently found it difficult to get, or to keep, employment in broadcasting. Hughie Greene and Pete Murray were mentioned.

K.W.B.

8th November, 1983

HIGH QUALITY PICTURES FROM SATELLITES

New technology enables the adoption of a television standard for satellite transmission that is technically superior to the PAL system currently used terrestrially. The PAL standard, which was devised nearly twenty years ago, is based on the technology of the original television standard first introduced in 1936 and is not appropriate to the satellite era.

The MAC system developed by the IBA has the following advantages:-

1. A much improved technical performance that will be immediately effective.
2. It is a standard that could have universal use throughout Europe and with a common satellite receiver it is appropriate for use both with PAL and SECAM receivers.
3. It has the potential of technical enhancement as the technology further advances.

The Part Panel made a thorough study of satellite transmission systems and last November firmly recommended that the UK adopt MAC. The Government immediately accepted this recommendation but acknowledged that at a later date it would be necessary for it to give further information about the detail of the specification to enable the integrated circuit and receiver manufacturers to make a start on their designs. This detailed specification has not yet been issued and is urgently required. Without the receivers, the satellite DBS service will be delayed.

.../...

The European Broadcasting Union has unanimously recommended that all their members use the MAC system. Attached is a copy of an editorial on this subject in the most recent issue of the EBU Technical Review. Unfortunately, the French and German Governments are holding back in accepting this recommendation. It is increasingly apparent that a UK decision on the specification for the standard will have to be made in isolation of the French and German Governments. Only by taking unilateral action will it be possible to get UK industry under way quickly with DBS receiver designs to meet the target dates it is hoped to achieve.

2nd November, 1983

Adoption of a single EBU standard for satellite television

It was on 15th July, 1983, that the untiring efforts of hundreds of broadcasting engineers seeking to define a single standard for satellite television received their just reward, when the EBU Administrative Council, meeting in Luxembourg, approved a Statement (reproduced opposite) proposing that the EBU Members should recommend to their respective governments the adoption of the C-MAC/packet standard.

It is a happy coincidence that this news is published in this the 200th issue of the EBU Review. The article by H. Mertens and D. Wood appearing in these pages describes in detail the principles and the performance of the system and explains the structure of the receiver; it also records the history of the events which have led up to this achievement. Readers of this article will readily appreciate the progress that has been made since 1977, when the WARC-BS of 1977 in Geneva established the Plan for satellite broadcasting in Regions 1 and 3.

It is in the years to come that we shall be able to fully appreciate the implications of this event which is unique in the annals of European television. A European event, first and foremost, because this standard is the result of work carried out in close collaboration between all the laboratories and research departments of the EBU Members. An engineering achievement too, because the results of all this hard work have converged and really have achieved optimisation of the selected specifications. Here we have striking proof that engineers from different nations (and of different tongues) have it in them to build a technical system which satisfies the requirements which inevitably differ from one country to another within our continent. It should also be stressed that the system we have adopted has never seen any real competition from similar systems, as was the situation when a choice had to be made between the various proposals for colour television: NTSC, PAL and SECAM.

So here we are on the point of presenting ourselves with a new television system whose advantages and superiority, as compared to the terrestrial systems in use today, may be taken as read.

Of course, this innovation may cause some concern to those who have not been closely associated with the experts' studies; fears are indeed apparent, especially with regard to receiver costs. Nevertheless, if we look at the system globally (considering an ordinary colour television receiver, with the necessary converter and antenna), it may be reckoned that the

difference in cost between the new system and the old analogue systems is insignificant in comparison to the advantages of the new system. What is more, through the influence of mass production made possible by the unique character of the standard and by the partial agreements that have already been reached regarding patents, there is no reason to believe that the new system will involve the average viewer in any more expenditure than he would otherwise have to incur if the existing, obsolescent systems were to be retained.

The history of broadcasting should teach us that even though the cost of receivers has been the subject of heated debate every time it has been proposed to introduce new services in broadcasting (frequency modulation, stereophony, colour television, teletext), this is a factor which has quickly fallen from our thoughts once the services have actually come on the air. If the truth be told, this question of costs serves to camouflage another more far-reaching one: this is the question of choosing between the timid retention of the "well-known" of yesterday and the confident acceptance of the challenge thrust at us by an advancing technology. In reality, the proposed system is the logical, realistic and well-thought-out response to the observable and predictable progress in semiconductor technology which, in the coming decades, will govern the progress of the whole of technology and of all its effects on mankind.

It is worthwhile noting, furthermore, that this agreement on a single television standard was reached in Europe just as the Regional Conference SAT-R2, which had adopted a Plan for satellite broadcasting in Region 2, was coming to an end. It is no exaggeration to say that this Plan has been designed to enable broadcasting to be undertaken in accordance with a standard similar to that which we have just adopted (component video and digital sound), and in fact the ITU drew the attention of the Conference to the specifications of the EBU's C-MAC/packet system and made these specifications available to the participants.

With the coming of satellite television, it would be a serious mistake not to adopt the most appropriate standard - one offering not merely the best quality available today, but also one giving the promise of future improvements once it becomes possible to equip domestic receivers with low-cost high-capacity memories.

R. G.



JF4814

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

15 November 1983

The Rt Hon Leon Brittan MP
Home Secretary
50 Queen Anne's Gate
LONDON
SW1H 9AT

*Dubs
16/11*

D. Leon.

CABLE BILL : THE QUESTION OF RESERVE MINISTERIAL POWERS

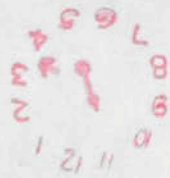
You copied to me your letter of 4 November to Michael Heseltine concerning the inclusion in the Cable and Broadcasting Bill of reserve Ministerial powers over cable programme services. I agree with your conclusion that we should not seek to take powers of this kind.

2 I am sending copies of this letter to the Prime Minister, the Lord President of the Council, the Chancellor of the Exchequer, the Secretaries of State for Defence, Foreign and Commonwealth Affairs, Northern Ireland, and Energy and to Sir Robert Armstrong.

Norman

NORMAN TEBBIT

Broadway: Sweet Pt 4



CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

9 November, 1983

As you know Sir Antony Part sent the Prime Minister a copy of his letter of 3 November to the Home Secretary about Direct Broadcasting by Satellite.

B/c | The Prime Minister has noted Sir Antony's view that the time is now right for a high-level approach to the French Government in order to secure general acceptance of the MAC system. I should be grateful if you could provide a short note setting out the present position, and your Secretary of State's view of the appropriate next steps.

I am sending a copy of this letter to Peter Ricketts (Foreign and Commonwealth Office), Steve Nicklen (Department of Trade and Industry) and to Janet Lewis-Jones (Lord President's Office).

(D. Barclay)

H. Taylor, Esq.,
Home Office

CONFIDENTIAL



10 DOWNING STREET

cc: Lord Res's Office
HMT
FRO
NIO
D/ Energy
DTI
CO

From the Private Secretary

8 November, 1983

Cable Bill

The Prime Minister has seen a copy of your Secretary of State's letter of 4 November to the Secretary of State for Defence.

BT
The Prime Minister has enquired whether cable broadcasting will be subject to the ordinary law on obscenity and libel. I understand that Tim Flesher has already spoken to you about this, and that the answer to the Prime Minister's question may not be entirely straightforward. I should be most grateful if you could provide a note.

I am sending copies of this letter to the Private Secretaries of the recipients of yours.

DAVID BARCLAY

Hugh Taylor, Esq.,
Home Office



10 DOWNING STREET

PRIME MINISTER

You asked if Cable would be subject to the ordinary law on obscenity and libel. The answer is yes.

7 November 1983

*PM has seen
a copy of
your SPS letter
of 4 Nov to SPS
for Defcon.
The PM has
expressed
gratitude for
advice*



Prime Minister

QUEEN ANNE'S GATE LONDON SW1H 9AT

The Home Secretary decides against taking powers to regulate broadcasting hours, or to require the inclusion or exclusion of broadcast material, in relation to cable programme services.

November 1983

Call to the Judiciary to uphold the Law on "Security" cables
M J

2 Michael

CABLE BILL: THE QUESTION OF RESERVE MINISTERIAL POWERS

DMG 4/11

File with 103

I am writing to let you and other colleagues with an interest know of my conclusions on a matter which I have had to consider in the course of the preparation of the Cable and Broadcasting Bill, which is due to go to Legislation Committee on 30 November. The question has been whether we should include in the Bill reserve Ministerial powers over cable programme services analogous to the three powers which exist in relation to the BBC and the IBA: namely to regulate the hours of broadcasting, to require the inclusion of material in broadcasts and to require the exclusion of material from broadcasts. I have considered only peacetime circumstances, because war emergency legislation would contain provisions to take account of the special considerations which would arise in wartime, or when war seemed imminent.

My conclusion is that we should not seek to take powers of this kind in respect of cable programme services. The sort of regulatory framework which we are proposing for cable does not lend itself readily to reserve Ministerial powers of this kind and, more importantly, there would be an obvious conflict with our declared wish for cable not to be seen as simply an extension of public service broadcasting. A further consideration is that each of these powers dates from the earliest days of broadcasting when attitudes were very different from today. Although they have been carried over into the present constitutional documents governing the BBC and the IBA it is in fact questionable whether, if Parliament were now asked to express a view on the need for them, it would consider them justified. However that may be, it is certainly true that Parliament could be expected to look very carefully at any proposals to extend the powers to a new area of the media.

Turning to the powers individually, I think that the only foreseeable application in present-day circumstances of the power to regulate transmission hours, whether for broadcasting or cable, would be to control consumption of electricity during a national energy crisis (the powers over the BBC and the IBA were used for this purpose during the coal miners' strike in 1973-74). The Energy Act 1976, however, contains adequate powers for this purpose, and I see no need to write a separate power into the Cable and Broadcasting Bill.

The power to require the inclusion of material in BBC and IBA broadcasts arises primarily from the public service nature of broadcasting and the desirability of enabling the Government to convey information to the public. Although the power has not formally been invoked, at least for very many years, it forms the backcloth against which informal arrangements are reached with the broadcasters

The Rt Hon Michael Heseltine, MP

CONFIDENTIAL

on Ministerial announcements (eg the Chancellor's budget-night broadcast). Cable operators will be required to relay BBC and IBA programmes and cable subscribers will therefore be able to receive Government announcements broadcast by the BBC and the IBA in the same way as homes dependent on 'off air' reception. I can see no need in peacetime for all cable channels simultaneously to carry a Government announcement.

The question of taking a power to require the exclusion of material has prompted me to give very careful consideration to the security issues involved. My conclusion is that there would be considerable difficulty in persuading Parliament that the Government should have a reserve power of censorship over cable, and little if any advantage in making the attempt. It is in fact very doubtful whether the analogous power to require the BBC or IBA not to broadcast a particular programme would ever now be used in peacetime. Moreover, it is generally accepted that in many respects cable is more analogous to the printed press than to public service broadcasting. In the absence of direct Government powers over the printed press, even in the security and intelligence fields, to take such powers over cable would be controversial and very hard indeed to justify during the Bill's passage. We should inevitably be pressed to give examples of circumstances in which we might be prepared to use the power and I see great problems in trying to argue that something which might be published quite lawfully in the daily or weekly press might possibly be banned from cable television.

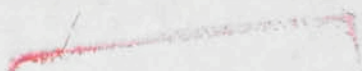
I am sending copies of this letter to the Prime Minister, the Lord President of the Council, the Chancellor of the Exchequer, the Secretaries of State for Foreign and Commonwealth Affairs, Northern Ireland, Energy and Trade and Industry, and to Sir Robert Armstrong.

Law,
L

CONFIDENTIAL

BROADCASTING: binder

Pr 4



4 NOV 1983





Sir Antony Part GCB MBE
Chairman

The Orion Insurance Company p.l.c.
70 King William Street
London EC4N 7BT
Telephone 01-626 4567

CONFIDENTIAL
IMMEDIATE

3 November 1983

The Rt Hon Leon Brittan QC MP
The Home Office
50 Queen Anne's Gate
LONDON SW1H 9AT

DIRECT BROADCASTING BY SATELLITE:
TECHNICAL TRANSMISSION STANDARDS

As you know, a senior official of the French Ministry of Foreign Affairs has told our Embassy in Paris that, in view of the outstanding success of the Anglo-Franco-German cost working party, which was under French Chairmanship, and of the satisfactory progress of the other two working parties (on patents and cable), a high level political approach from the Secretary of State for Trade and Industry to his opposite number M. Fabius might now clinch the French Government's acceptance of the C-MAC Packet system as the single European standard from the beginning of DBS. The Prime Minister and the President had, he said, been briefed to this effect. The official urged speedy action in order to pre-empt any resurgence of those forces in France which still favoured SECAM.

The approach suggested is highly desirable. It represents an opening that we cannot afford to miss. But the FCO rightly point out that it can be pressed effectively only if the Home Departments concerned are firmly in support of the proposal and can present it as a decision which H.M.G. are poised to take.

This must surely now be so. The evidence on cost, endorsed by the French and the Germans, is conclusive. The technicalities of the translation to cable are settled in favour of B-MAC. (My latest thought is that the use of MAC for all cable transmission could be strongly encouraged by the promise of longer franchises to those who are prepared to do this), and though there is one important issue outstanding on patents it is not of a kind that need hold up European agreement on MAC as a system.

Meanwhile the BBC have had ample time to reconcile themselves (if that is still the right word) to the prospect of a decision in favour of MAC. The Director-General has been pressing publicly

.. Continued on Page 2 ..

Directors: Sir Antony Part GCB MBE (Chairman), David Scholey CBE, Sir Robert Erskine-Hill Bt. CA, Norman Smith, Bryan Llewellyn, Odo Hattink, Folkert Vogelenzang, Michael Burtonshaw FBIM FCII (Managing Director)

The point was raised with us by IBA last week. Demand is

Prime Minister

Copied to you by Sir Anthony Part. He judges that the time is ripe for a Ministerial approach to the French, in order to clinch European acceptance of the mainly British MAC technology.

engined from the H-S - where are now.

DMS 4/11

David
is carrying a
the A
(2)

for a Government announcement, and we know from influential sources that their technical staff at working level are acting on the assumption that a MAC decision is imminent.

On the international plane the European manufacturers, at a very recent meeting, have unanimously reaffirmed their support for MAC. The German delegate remarked that no other system was under consideration by manufacturers and the French delegate agreed. This is important as the manufacturers have a substantial amount of money at stake.

At Government level it is, of course, proper to sound out the Germans, who were the third party at the meeting in London in July and who are involved in the three working parties. I gather that this consultation is in hand; but as we know that the Germans are fundamentally inclined towards MAC I do urge that even if they identify certain minor issues as still outstanding, we should allow nothing to prevent us from writing to the French as they have themselves suggested. It is, after all, they who hold the key to a unanimous European decision.

I am copying this letter to the Foreign Secretary and the Secretary of State for Trade and Industry and, in view of their interest in the matter, to the Prime Minister and the Lord President of the Council.

ANTONY PART



10 DOWNING STREET

From the Private Secretary

3 October 1983

Dear John,

The Prime Minister has asked me to thank you for your letter of 29 September, and for the enclosed paper on the private sector satellite project you are putting together.

The Prime Minister has read your letter with interest, and is grateful to you for letting her have a copy of your paper.

I hope we will keep in touch; I will certainly be interested to hear what progress you make.

Yours sincerely,

Michael Scholar

J. G. Anderson, Esq.



10 DOWNING STREET

(2)

Prime Minister

This letter is from a friend of
mine, who worked in the DoI and
then Cabinet Office, then privatised
himself four years ago and is now
running a very successful firm of
consultants on satellites and telecoms.

He believes that the BBC /
Unisat project is on a disaster course
- that it will ship badly, cost far
more than anyone expects, and, most
important, will throw away the UK's
chances of entering commercial

OVER

space operations ahead of other
countries. I think he may well
prove correct.

I have acknowledged his letter.

ms 30/9

Commercial in confidence

Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
London S W 1

29 September 1983

Dear Prime Minister,

This is to advise you that a group of technical people I am leading, backed up by financial expertise, have submitted proposals to the BBC for an alternative direct-broadcast satellite project to Unisat. The attached summary of our proposals explains the case we are making, and for reference I also enclose a copy of the fuller proposal.

We are convinced that Unisat is a disaster for the UK :

- it is an artificial political construct
- it jeopardises the entire future of the BBC
- it will lose money for the suppliers, and hence tax for HMG
- the project may need to be bailed out by Government support
- it throws away Britain's chance to enter commercial space operations ahead of other nations, especially on DBS

Instead, we have constructed proposals that will give a real opportunity to let risk capital determine Britain's entry into commercial space operations. Our project will have as much UK content as Unisat. Most importantly, it will be on time and it will work. The venture will yield tax revenue, and is intended to lead almost immediately to a follow-on telecommunications system with the same benefits for Britain.

We are conscious that the political odds are stacked against us, whatever the merits of our proposals. We are threatening Unisat, which involves several of the biggest industrial interests in Britain, and we are challenging a pattern of endless state support and control of space developments. We are nevertheless confident in the merit of our proposals, and certain that our project meets exactly the needs of the BBC and of eventual commercial DBS franchises. It will also head off the risk of a unilateral Irish project.

All we seek is a fair hearing - in the first instance a fair chance for the BBC to consider our proposals properly and without duress from the Unisat consortium and implicit pressure on the BBC to 'keep in line with Government policy'.

It would be inconsistent for us to seek your intervention in any way - it is for us to try at our own risk to persuade the BBC to listen to us and to follow the alternative course of action we propose.

Nevertheless, since we intend to develop our technical and financial case forcefully with the BBC, and to defend our case against inevitable attack from the Unisat camp, in public if necessary, we have felt it prudent to alert you to the fact that Unisat is now under direct challenge.

I know from my own experience in initiating the Mercury project that when we reach the political battles that lie ahead, we can have reasonable confidence of eventual success if our case is sound and well-presented.

At this stage, therefore, we are simply bringing the matter to your personal attention. If possible, we would particularly request that official advice should not be sought at this juncture from the DTI, since on all past form that will lead directly to a leak to Unisat and increased pressure on the BBC to commit precipitately to a project that they know is all wrong.

Yours faithfully

T. G. Anderson

(J G Anderson)

2 SUMMARY

- DBS has far better market prospects than cable in the UK. The BBC has a once-for-all chance to pre-empt both cable and commercial DBS by mounting the first effective DBS channels. page 5
- Successful market entry by the BBC depends crucially on the reliability, timeliness and economy in satellite distribution page 6
- The BBC has to have absolute confidence that the satellite system will meet its full requirements on channel performance and on launch dates page 7
- Power output should be kept high, as there are no real economies in lower power and high standards of introductory customer reception are essential page 7
- The BBC needs to avoid being locked into any an uncertain project containing high technical risk page 8
- The BBC also needs to avoid forced compromises late in the satellite programme on performance or dates page 8
- Full contractual penalties should apply. There has to be total confidence in the system suppliers page 9
- Unisat has major disadvantages, stemming from the way the Government prompted its formation. There is conflict of role with the system suppliers acting also as system organisers, and with British Telecom as user and operator page 10
- The suppliers are out of their depth in DBS technology page 10
- Unisat represents a completely new spacecraft design as well as advanced new payload technology. This creates enormous risk of delay or technical compromise page 11
- The whole project was initiated on the basis of scant definition of the mission and no real estimation of costs page 11
- The suppliers are under heavy pressure on other programmes, especially from the European Space Agency who are staffed to insist on proper progress, and this conflicts with Unisat page 12
- By contrast the BBC has no such control on Unisat page 12

There is virtually no chance at all that Unisat could meet the BBC requirement by autumn 1986. The BBC will therefore lose all its pre-emptive advantage page 13

It is now entirely plausible that the BBC could be delayed by being locked into Unisat, while the commercial DBS channels overtake with a US system page 13

The only sensible alternative is to organise a satellite system geared specifically and exclusively to the BBC's needs, with no question of dual mission for telecoms capacity page 14

The proposed alternative system would use an existing design of spacecraft that will be space-tested well before Unisat is theoretically intended to fly page 14

This eliminates the main project risk. The payload design and channel performance would be defined absolutely by the BBC page 14

There would be as high a level of UK content as applies with Unisat page 15

The alternative can proceed immediately, solely on the basis of commitment by the BBC page 15

The alternative would meet all the technical needs of the BBC, and the BBC would have a full window into the entire project page 16

The BBC would have all the normal contractual safeguards that apply in the world satellite industry, and if necessary even more stringent conditions on delivery dates could be applied page 16

The system would be organised by a UK-owned satellite operating company, and this company would give the BBC a lease on channels at a fixed price with no escalation through cost over-runs or inflation page 16

The system would have a 10 year design life, with options for the BBC to continue usage for any remaining life and to require provision of a follow-on system of identical performance page 17

Assuming no other usage of the system beyond the BBC channels, the fixed price would be twelve million pounds per channel year page 18

If other uses of spare capacity on the system arose, the channel price to the BBC would be abated. It is likely that this could lead to savings of at least seventy million pounds over the life of the system page 18

The equity composition of the satellite operating company would be structured to give the BBC the benefit of tax advantages. Several major UK companies would be willing in principle to join the venture to give financial and managerial backing page 19

Satellite project management expertise would be brought in as necessary on a contract basis page 19

At this stage neither British Telecom nor Mercury are intended to be involved, but if for political reasons this became necessary they would not have control page 19

Absolute confidentiality would be maintained in negotiations with the BBC, and it is fully recognised that careful political handling is essential page 20

If necessary, British Aerospace would be given the appearance of still leading the project, and would be likely to be major sub-contractors to ensure adequate UK content. Other major UK firms could also benefit page 20

These proposals can be discussed in detail with the BBC immediately, on a confidential basis. So long as final agreements were reached by December, there is absolute confidence of system launch by June 1986 page 21

SATELLITE SYSTEM

LEASE PROPOSAL

FOR DBS

23 SEPTEMBER 1983

CONFIDENTIAL

SATELLITE SYSTEM LEASE PROPOSAL FOR DBS

Contents

	page
1 Introduction	1
2 SUMMARY	2
3 Prospects for DBS	5
4 The satellite system requirement	7
5 Unisat	10
6 The alternative	14
7 Advantages of the alternative system	16
8 Corporate structure and financing	19
9 Political considerations	20
10 Next steps	21

23 September 1983

1 Introduction

1.1 Since late 1982 work has been under way in planning a telecommunications satellite system, to be financed by the UK private sector and to deliver communications services for the UK and for certain overseas markets.

1.2 For political reasons, after initial discussions with Government, the planning work excluded the possibility of offering a competitive option to Unisat for the BBC direct broadcast system. It was clear that the Government, as original sponsors of the Unisat consortium, wished to allow the Unisat organisation the clear opportunity to demonstrate their ability and competence to provide the desired service in full compliance with BBC technical and timescale requirements. It had been expected that voluntary acceptance of this limitation would improve the prospects of obtaining a telecommunications licence under Section 15 of the British Telecommunications Act 1981.

1.3 For this telecommunications satellite project, the markets had been extensively researched; the technical options to meet these markets had been defined; and finance would be available from UK institutional sources. What was needed was a political decision by Government to issue a licence. A formal application for a licence was submitted in May 1983.

1.4 In the event, in spite of cooperation in giving Unisat a monopoly opportunity on the BBC DBS project, the Government has not taken action on the licence question, preferring the separate satellite venture if possible to proceed under the Mercury licence. There have been discussions with Mercury but a mutually satisfactory way forward has not yet been achieved.

1.5 Meanwhile the apparent strains within the Unisat project have become public knowledge. Among the engineering team on the telecommunications project there was concern that the BBC was getting a poor deal, not only in terms of price but in terms of normal contractual assurance that its space segment facilities would be delivered on time and to specification. This would jeopardise the operational success and economic viability of the BBC's entire DBS strategy, and could whittle away its pre-emptive advantage in launching DBS services by 1986.

1.6 Accordingly attention turned to the specific possibility of organising an alternative lease offer for provision of the BBC DBS service, designed to give the BBC exactly what it needs, with unqualified assurances on delivery schedule and at a price consistent with commercial practice in the world satellite industry. Considerable work has already been carried out in defining this alternative. This paper sets out the main conclusions of this work and shows how the alternative project would proceed.

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3 Prospects for DBS

3.1 There is no doubt whatsoever that there will be a strong market for reliable DBS services in the UK. DBS has far greater chance of viability in the UK than cable. The Government's plans for cable have been developed with insufficient time to allow a rational approach to technology, programming and economic viability. The amount of real equity represented by the present batch of cable franchise bids totals no more than some fifty million pounds after account is taken of leasing arrangements, and it is highly unlikely that sufficient capital will go into cable this decade to give extensive CATV coverage of the UK. The only parties likely to gain from cable in the short-term are the manufacturers and installers of cable systems, and British Telecom on leasing of spare duct space.

3.2 There is a lot of froth about cable, but little substance. Specifically, cable has poor immediate prospects because :

- the historic problem of poor off-air reception in much of North America does not apply in Britain
- there will be a dearth of good programming material
- the installation costs of cabling are far beyond the availability of investment
- audience viewing habits are changing
- the Government is imposing extra system costs by looking for switched two-way systems, even though the small market for interactive services can be catered for perfectly well by other means

3.3 Nevertheless, if given enough time to develop and with the eventual emergence of low-cost switching technology, cable could pose a serious long-term threat to the BBC, tending to undermine its traditional place in broadcasting. Additional competition to existing BBC services will also result from commercial DBS channels which could become available in the 1987/88 period.

3.4 The BBC has a once-for-all chance to pre-empt both cable and commercial DBS by mounting the first effective DBS channels. The technology is all playing in the BBC's direction, and the BBC's strength in programming could create an unchallengable market position. While there may be reservations within in the BBC about such a radical change of stance, DBS is now inevitable throughout Europe and medium-power operations will begin in North America by the end of 1983. The opportunity for the BBC is commercially compelling. There is every prospect that the BBC could repeat on a much larger scale its lead on breakfast television, and match the growth of Home Box Office which has gone from obscurity to a turnover of a billion dollars per annum within eight years.

3.5 DBS by definition gives immediate coverage of the whole of Britain, either to households direct or to small community master antennae. The real cost of customer reception equipment will be well below the cost of cable TV delivery per customer hook-up, judging by the BBC's own plans and by comparable plans in North America and Japan. Receiving units in mass production will be available in the United States in 1984 at an initial price of \$500, including security provisions. The prices will fall to under \$300 by 1986. Furthermore, mass ownership or rental of video recorders in Britain greatly increases the value to the customer of premium services, by allowing time-shifting of viewing or recording of material for future use. Also, there is a large but unquantified market for the BBC in mainland Europe for household reception and for cable system reception.

3.6 The BBC should have no hesitation about the principle of entering the DBS market. All the market and technical trends are in its favour, and not to enter the market could well weaken the BBC's long-term place as a broadcasting organisation supported by mandatory licence fees. This would be a disaster not only for the BBC but also for public broadcasting standards in Britain.

3.7 What is essential, however, is that the market entry should be as early as possible, to head off any other bidders and to create customer preference for the BBC channels. If the market entry is successful, there are a variety of ancillary services that the BBC could profitably mount that are just as suitable to satellite distribution. If the market entry is not successful, or is too late, the BBC would be in serious trouble.

3.8 Successful DBS market entry is therefore crucial to the future of the BBC. It depends on :

- imagination and quality of programming, which the BBC should be able to take in its stride
- low-cost reception equipment, already becoming available in North America and Japan through advances in microwave integrated circuitry and volume production
- dropping the C-MAC requirement to achieve low cost and high reliability of customer reception equipment
- reliability, timeliness and economy in satellite distribution

3.9 This proposal deals directly with the last requirement, in sharp contrast to Unisat. Even if this alternative proposal were not eventually pursued, for political or other reasons, its active consideration could improve the BBC's negotiating position vis-a-vis Unisat and on dropping the C-MAC requirement. The central purpose of this proposal, however, is to allow the BBC to have absolute confidence that it can achieve pre-emptive market entry by August 1986, well before cable TV makes any real progress and in advance of commercial DBS channels.

4 The satellite system requirements

4.1 The BBC's requirements for satellite facilities are :

- two channels operational by the autumn of 1986
- high power-output to give the full EIRP levels
- firm competitive prices, without escalation clauses
- confidence that the system will be delivered on time
- confidence that the system will give the full power-output required, with concurrent operation of two full-power channels per satellite throughout operational life
- standard contract terms for commercial satellite systems, including penalty clauses for under-performance or late delivery
- full access by BBC engineers to the specification and development progress of the satellite system

4.2 Taking these requirements in turn :

- September (or preferably August) 1986 is the optimum date for introduction of service, ie the start of the autumn viewing season. Slippage even by a few months would miss this selling window, and could also miss the peak period of consumer expenditure on reception equipment leading up to Christmas 1986
- although it is well known that high quality reception could be achieved with much lower satellite channel power than the 230 watts allowed under the WARC-77 plan, by taking advantage of developments in reception technology, the main economic benefit of a lower-power approach below 100 watts would be to make more channels available on each satellite. However, for the UK the ultimate number of DBS channels is five. This alternative project proposal will provide four channel capability at full power, at essentially the same price as a lower-power system. Thus there is no economic advantage in reductions below the power level demanded by the BBC, and therefore no need to risk patchy reception performance with the crucial introductory service
- it would therefore be false economy to compromise the specifications for the satellite transmission facilities. Nevertheless the space segment costs are a significant element of the total BBC budget for DBS services, and the long lease involved represents a heavy financial

commitment. Without compromising on the power output requirements, the BBC has to have regard to these costs rather than having high costs of satellite distribution imposed by a monopoly supplier

- the BBC must have absolute confidence that the system will be delivered on time, otherwise it will lose its pre-emptive advantage over cable TV and the independent DBS channels. Also, if the satellite system is not operational on schedule, the BBC will suffer heavy costs of terrestrial operations, programme preparation, marketing and administration during any delay, with no revenue. This imperative to synchronise the entire DBS operation means avoiding reliance on high-risk development work or on contractors with whom there is doubt about their technical capability to meet the exacting satellite project requirements on time
- the BBC also needs to avoid any position of being locked in to an uncertain project, where at a late stage in the development work there could be serious problems facing the BBC with a crude choice of accepting delay or putting up with compromises on the technical specification. In the normal course of any satellite development programme, delivery delays are neither identified nor reported until about six months before the first scheduled launch date. In part this is because the technical problems would only become apparent after the long lead-time for procurement of system components, when the real work of integrating and testing the whole system begins
- this risk of technical compromise at a very late stage in project development, in order to stay within the basic spacecraft configuration limits and launch weight limits, could take two forms :
 - a forced decision to accept lower power-output
 - a forced decision to accept only one operational channel on each satellite, in effect a non-backed-up system

Both these choices would obviously be technically unacceptable to the BBC, but the threat of delay in launching DBS services could force the compromise. Even these forced compromises may not assure on-time delivery of any project involving both an entirely new spacecraft design and advanced new transponder technology

- the BBC is well used to purchasing major items of capital equipment, requiring proper contractual terms, and the lease of DBS satellite facilities should be governed by similar contractual safeguards. The supplier should face the normal consequences of poor performance, and prices should be clear and fixed

- to ensure that the BBC is fully in touch with all aspects of technical progress on the project, BBC engineers should have full access to all the engineering work and to all of the suppliers' sites where work is going on

4.3 The DBS space segment facilities represent a very large financial commitment, larger than any other single commitment the BBC has ever faced. Development of a DBS satellite system is a relatively new product for the satellite manufacturers and has some inherent uncertainty related to the frequency and transmission power requirements. It is not sufficient bravely to enter into the development of a DBS system without extensive design and subsystem R and D experience - the construction of a handful of more conventional communications satellites is not enough.

4.4 Even without the fundamental importance of DBS to the whole future of the BBC, it is essential on a project of this scale to obtain the fullest contractual safeguards and to have total confidence in the system suppliers and organisers.

4.5 As part of this critical decision, it is essential to have the final performance specification for the satellite system, with every detail complete and endorsed by BBC engineers, signed off before any lease commitment is entered into, and before any major irrevocable engineering and component commitments are made by the system suppliers.

5 Unisat

5.1 The Unisat system has major disadvantages for the BBC. These disadvantages stem from the way that the Government prompted the formation of the Unisat consortium early in 1982.

5.2 Firstly, the consortium which would own and operate the satellite system contains the two major suppliers. In other words there is none of the normal discipline of arms-length supply to the system operator that applies in North America, and single clear and unqualified responsibility of the prime contractor.

5.3 Secondly, the consortium is led by British Telecom, which is not an equipment development organisation but is the junior service lessee of the system. Again, there is a conflict of role, and Unisat has from the outset been a hybrid system trying to reconcile the BBC's leading-edge DBS requirements with ill-defined telecoms requirements. British Telecom has never been able to establish a clear idea of the market for the telecoms capacity. Without a firm usage plan there can be no firm technical specification for the telecoms capacity - in other words only one half of the hybrid mission is properly defined, causing continuing uncertainty over the entire system design.

5.4 Thirdly, the BBC finds itself as dependent as ever for transmission facilities on the British Telecom monopoly, and for the use of telecoms transponders for normal TV distribution.

5.5 Fourthly, the whole Unisat venture was inspired by Government and leaves the BBC wide open to political pressures to revise its requirements or expectations if progress on the project continues to fall below the operational needs for DBS.

5.6 Finally, quite apart from the artificial nature of the Unisat consortium, the parties involved in Unisat are plainly unfitted to tackle the DBS requirement properly in the timescale needed by the BBC. Specifically :

- British Telecom has nil experience of owning and operating satellites, and has not brought on board requisite experience to fill this gap. The record of the System X development programme for integrated digital switching, central to BT's own service operations, has not been inspiring, and on this track record on such a major project there can be little confidence that British Telecom will make any better progress with Unisat
- British Aerospace has never won a civil satellite order in open competition. Its main line of satellite business has been through public procurement, or as subcontractor North American suppliers

- GEC-Marconi, primarily responsible for the Unisat DBS payload, is out of its depth in this complexity of technology and is not in any way competitive on the world satellite scene. It has never built a transponder at the new and much higher frequencies of DBS, and has no experience of the very much higher power levels required. Procurement of the final channel power amplifiers from a competent sub-contractor is not sufficient to overcome this major risk, since the major task of payload integration would still lie with GEC-Marconi. Further, the company has no experience of the high-frequency uplink requirements for DBS, either in terms of the uplink ground transmission or the satellite uplink receiver

5.7 The consequences of these fundamental weaknesses have become steadily more apparent over the last eighteen months. When the BBC first started to negotiate with the Unisat consortium in the spring of 1982, it was evident that Unisat as a company hardly existed and that little had been done to appraise the BBC requirement properly. A very vague project proposal was put to the BBC, ostensibly a 'stretch' of the existing ECS satellite.

5.8 Even the most cursory analysis of this proposal showed that what was needed, given the very high solar power requirement for DBS, was a completely new design of spacecraft, with all the development and timescale risks that this involves. The fact that Unisat requires the much larger PAM-DII perigee assist rocket demonstrates that Unisat combines two separate sources of risk - a new spacecraft design as well as a novel and hybrid payload.

5.9 Further, the original Unisat cost assessments were based on an undefined technical development plan - almost figures pulled out of the air, and certainly not representative of hard analysis by Unisat. The indicated per-channel charges to the BBC were hopelessly uncompetitive, but when it was suggested that it would be more sensible for the BBC to look overseas for its system Unisat quickly brought down its indicated tariff to twelve million pounds per annum - not because there was inherent excess profitability, but because the Unisat partners were determined to hold on to the BBC at all costs.

5.10 In the nature of a project like Unisat, as long as the technical design remains incomplete, all cost projections are certain to be unsound, and inevitably subject to increases as the specification becomes complete and the full-scale design engineering is initiated. Escalation of costs point up the need to increase the lease rates and causes severe management pressure to make internal cuts in the development programme, especially on the high-risk design work.

5.11 If there is no scope for increasing the lease charges, other than by way of imposing escalation clauses on the user, there is a potential for disastrous short-cuts on the development work that could lead to in-flight failure of the satellite system, or delays on the entire programme. Although there have been

relatively few failures in commercial satellite programmes, almost every one of the failures has occurred in programmes where the contractor was faced with similar cost-reduction problems to Unisat - eg Intelsat III, Satcom III, Insat A and B, and TDRSS.

5.12 These risks must be apparent to Unisat as well as to the BBC. In other words Unisat appears to be more concerned to buy its way into UK domestic space systems - effectively using the expectation of BBC money as the funding for a massive development project. As a project, Unisat has looked from the beginning like so many other UK hi-tech adventures, based more on confused corporate ambitions than on hard commercial reality. Worst of all, the mission for the system is confused, obstructing real system planning work.

5.13 Nevertheless, partly as a result of implicit Government pressure, the BBC has reluctantly gone along with the Unisat proposals, but subsequent developments on the project and continuing negotiations between the parties must have brought out more starkly the fundamental problems - with the Unisat partners trying stage by stage to cement the deal prior to resolving their own internal problems, in order to lock the BBC and the Government into the necessity for unlimited support of the Unisat development project at any cost and any schedule.

5.14 The BBC has seen how the Unisat design is nothing less than a completely new satellite system. British Aerospace on all its past form has no ability to deliver such a new design in under five years' development. The solar power requirement, the dominant factor in the DBS mission, is more than double that of ECS, so in no sense can Unisat be regarded as just another set of spacecraft off the existing ECS production line. With many thousands of components to be integrated into a new spacecraft, this poses all the problems of payload and aeronautical integration that applies in any satellite development. When the time comes in 1985 to start to integrate the design for testing it is inevitable that key variables will need to be changed.

5.15 Also, both British Aerospace and GEC-Marconi are under heavy pressure on other programmes, so the Unisat project is in contention with other military and civil projects for scarce technical and management resources, adding to the risks of delay. Specifically, British Aerospace is now committed to the development of the even more complex 'Olympus' project for the European Space Agency at the same time as developing Unisat. These developments are conflicting rather than mutually supportive. The Olympus (L-Sat) commitment was first made in early 1982, establishing a clear priority over Unisat which is not yet committed. Further, ESA's large, competent and aggressive staff are in a position to enforce demands on British Aerospace for technical priority, development perfection, and assignment of the best personnel to Olympus. By contrast, the BBC has little or no access to the Unisat programme. When the inevitable conflicts arise, Olympus will have priority, not least because it could be far more important as a source of continuing orders.

5.16 In GEC-Marconi's case, the development problems and the lack of any real experience on such a complex payload design have already caused the laying off of much of the Unisat work overseas.

5.17 The dual-mission problems have still not been resolved. British Telecom remains undecided about the applications for the telecommunications transponders, having spent a good deal of time trying unsuccessfully to persuade Intelsat to pre-contract for this capacity. Apparently BT has been trying to obtain the same sort of irrevocable commitment to an undefined project as is being sought from the BBC. As stressed above, the engineering of the design must be closely integrated at the very start of the programme, and without final definition of the telecoms mission the project is inevitably delayed. Normal commercial practice in the satellite industry is to settle the whole mission conclusively, including all details of the specification and configuration, before any substantive work can begin.

5.18 Failure to resolve the dual-mission conflict has set Unisat back by many months, probably a year. Even in early 1982 it was highly doubtful whether the suppliers could hold to the project schedule, even assuming a full contract by mid-1982. After so long a delay on finalising contract terms, and with the payload conflicts still not settled, there is now no practical chance that Unisat can meet the 1986 launch dates. The fact that five shuttle slots have been booked through to the end of 1987 indicates division of objectives and a search for other users. The availability of later shuttle slots clearly tempts delay.

5.19 Latterly, the Unisat consortium collectively, and the aerospace suppliers individually, have been trying to persuade the IBA and possible independent programme contractors to stay with the Unisat design for their requirement - offering to match any price that may be quoted for a North American system. However, as some of these parties may want lower power-output, this only increases the risk that the BBC service will be delayed while IBA requirements are assessed, with diversion of key design staff on to a wider marketing effort. The BBC will know that this diversion of effort is already occurring.

5.20 In sum, there is now virtually no chance at all that Unisat could meet the BBC's requirement by autumn 1986. If it is not on this schedule, with full power and with two DBS channels per satellite, the BBC loses all its pre-emptive advantage. There can now be no engineering confidence in the Unisat solution to the BBC's requirements, whatever the price. Even if Unisat still offers to meet the BBC's deadline, there will not be adequate contract terms to ensure this, nor a full window for BBC engineers into the project. The project will either slip, or will be severely compromised in engineering performance, or both.

5.21 The worst of all worlds for the BBC, but an entirely plausible scenario, will be if the BBC remains locked in to Unisat and its inevitable delay, while the IBA camp catches up or overtakes with an existing US-designed system.

6 The alternative

6.1 The only sensible alternative is to go back to basics and organise a satellite project that puts the BBC's DBS mission first and foremost. The BBC's interests should not be subjugated to the interests of the UK aerospace industry, and in contention with the interests of British Telecom, while the IBA camp are allowed to go wherever they want for their system.

6.2 A full planning assessment, with all detailed costings, has now been made of an alternative solution geared specifically to the BBC requirements. These plans can be discussed with the BBC immediately. In essence, the alternative system has a single mission, namely pure DBS at high power, to avoid all the problems of a hybrid design. All channels in all satellites will be of identical capability. There will be complete channel frequency assignment flexibility for any final power amplifier (TWTA). Each satellite will have four-channel capability, with full redundancy on all satellites. This overall design greatly improves the operational flexibility of the system for future uses. Antenna coverage pattern is simple, solely covering the direct broadcast requirements of the United Kingdom and Ireland.

6.3 The alternative system will be based on a large US-designed satellite bus, with much greater payload power than can be achieved with Unisat. There are two such buses already well down the path of development. Both are due to be launched and space-tested well in advance of the notional Unisat schedule. Both the potential suppliers have a consistent track record of completing such projects in far shorter timescales than could ever be achieved by the current aerospace procedures and organisation in the UK, indeed the existing orders for these spacecraft are well down their 27-month production schedules.

6.4 By basing the BBC design on either of these existing spacecraft designs, a major part of the project risk is eliminated. The payload development specific to the DBS mission can also be tackled and coordinated far better by either of the potential suppliers than by the Unisat members, as a result of the specific DBS developments these organisations have already completed.

6.5 Further, there would be no risk that the BBC would be forced to compromise, either now or well down the project path, on lower power-output levels. Indeed the power output level could if the BBC wished be taken back up to the full 230 watts allowed under the WARC-77 plans. This option is technically achievable and could be negotiated. However, the present assessment has been based on 185 watts per channel as 'promised' by Unisat.

6.6 All necessary analysis has been conducted on system availability and launch availability. This analysis has also

taken account of the political need to secure a reasonable proportion of the contract work for the UK, without compromising the schedule. The proposed project while led by North American designs will have as great a proportion of UK value-added as Unisat. The schedule is maintained, within this likely political constraint, by ensuring that the first satellite of the series is built entirely in the United States. The cost analyses include the extra costs inherent in UK sub-contracting.

6.7 Subject to an early change of course by the BBC, there is now full confidence that the proposed alternative solution will put the BBC back on path to have a full-power system in operational service by August 1986. Only the BBC's commitment is necessary for the project to proceed. The lease offer outlined in this proposal is firm on this basis, and is in no way contingent on obtaining any degree of commitment from any other party for any of the remaining capacity of the system.

6.8 In other words, the system design gives absolute priority to the BBC requirement, and will win back for the BBC its pre-emptive position on DBS by giving solid assurance of operational service by August 1986. The proposed satellite design, based largely on an existing spacecraft design, will be finalised irrevocably in compliance with the channel performance specification required by the BBC. The satellite operating company will incorporate more intensive delivery schedule incentives than normally apply, to further ensure the critical operating schedule by causing the supplier to allocate first priority to this programme against other calls on resources. The satellite operating company would incorporate in the lease agreement with the BBC provisions to share with the BBC any revenue benefits from any subsequent use of the remaining capacity of the system, in the form of rate reductions.

6.9 The alternative project can proceed immediately, solely on the basis of commitment by the BBC. It will not be compromised by the interests of any other parties.

7 Advantages of the alternative system

7.1 The **technical** advantages of the proposed alternative system can best be displayed by showing the BBC's senior engineering executives the details of the system. However, the key advantages can be summarised as :

- entire design oriented to BBC requirements
- full power-output on all channels
- designed exclusively for high-power DBS, ie no conflict of mission
- channel characteristics specified exclusively by the BBC; any subsequent users would have to accept the same specification
- no technical compromises at any stage of development
- 27-month delivery schedule
- rigorous system procurement and project management - the satellite operating company, to be UK-owned, will have no interest in or association with any of the potential system suppliers or sub-contractors
- absolute confidence on the delivery schedule
- a firm and final technical performance specification jointly constructed with the BBC before commitment and before work begins
- a full window for BBC engineers into any aspect of the progress on the project
- in-orbit test of the identical spacecraft design, of either of the two candidate spacecraft suppliers, 9 months before the first BBC launch
- satellite control and uplinks would be freed from British Telecom monopoly control, with technical specifications jointly developed with the BBC and the equipment supplied and operated by the lessor
- uplink installations at BBC facilities if desired

7.2 The **contractual** advantages will include :

- the BBC will have all the contractual safeguards that are normal for North American commercial satellite system contracts

- the system suppliers will face the normal penalties for delay or under-performance - and for a moderate premium, it would be possible to secure even more stringent delivery and system performance terms
- the suppliers will have normal North American incentives on meeting the full specification in orbit, and incentives for full 10-year life of system
- the system supply contract and the resultant lease to the BBC from the system operating company will be fixed-price, with no escalation clauses of the sort that Unisat have sought to impose

7.3 The system will have a 10-year design life, and the term of the channel lease to the BBC would cover this full period. However, in practice the operating life is likely to extend to up to 12 years. The lease contract will include an option for the BBC to extend its use of the system beyond 10 years, at the same rates, subject to a corresponding agreement that the BBC will utilise this option so long as it is still available and the BBC is still providing DBS services.

7.4 To give continuity of service beyond the initial period, the operating company will guarantee to provide DBS satellite lease services to the BBC using replacement satellites of the same performance for an additional 10 years at the BBC's option, so long as this option is exercised at least 4 years before the follow-on service is due to begin. The charges to the BBC would remain at the same level, adjusted by cost of production indices. This option would guarantee the availability of continuing service beyond 1997. Further, the BBC would have the first right of refusal to purchase the full follow-on system according to a pre-agreed valuation formula, if it desires to operate its own system after 1997.

7.5 As a safeguard against the BBC withdrawing for any reason from DBS operations, the lease agreement from the satellite operating company will include provisions allowing the BBC to assign their lease to any other DBS user. In other words, subject to finding another user of service, the BBC would not face a long-term financial commitment if it withdrew from DBS.

7.7 An unquantifiable advantage to the BBC would be the fact that the satellite operating company would intend to bring to its task higher calibre engineering staff than with Unisat, and this staff would be actively collaborating with the BBC staff in the approach to DBS services, and available for consultation on many of the wider issues such as encryption techniques, customer billing and equipment design.

7.7 **Price** advantages are in some ways less significant than the degree of engineering and timescale confidence. However, even assuming that the subcontracting arrangements are deliberately structured to give as large a UK content by value as

applies with Unisat, there are significant economies for the BBC:

- assuming no other usage of the system apart from the two DBS channels taken by the BBC, the cost per channel year would be twelve million pounds per channel year, with no question of escalation
- if one further channel is subsequently taken by any other party, the cost per channel year to the BBC would be abated to some ten million pounds per annum
- if two further channels are eventually taken by other parties, the cost per channel to the BBC would be abated to some seven million pounds per annum

7.6 Therefore, even on the minimum usage case that has to be taken to allow the project to proceed immediately, the price to the BBC would be set at an acceptable level and would not be subject to any escalation - the satellite operating company would impose on the system suppliers the all risks of any cost overruns or any effects of inflation. Further, the satellite operating company will protect itself and the BBC fully by obtaining all appropriate satellite launch and operational insurance, allowing prompt replacement of any space capability loss.

7.7 In practice, it is clear that in due course there would be other users of the system, and the contract would be structured to give direct advantage to the BBC of this sharing of costs. By 1988/89, it is highly likely that the costs to the BBC would be reduced to the order of eight million pounds per annum per channel. This is equivalent to a cumulative saving on lease costs of at least seventy million pounds over the life of the system.

8 Corporate structure and financing

8.1 Instead of Unisat, the system would be organised by a new, predominantly UK-owned satellite operator. The entire project would be structured around the BBC's requirements, and to ensure strong project management an experienced North American satellite system operator would be brought in on a contract basis to back up the key staff within the UK operating company. The choice of this additional project management expertise would be settled in discussion with the BBC; candidates include Telesat, RCA Satcom, Comsat and various other firms.

8.2 Decisions on the composition of ownership of the operating company will in part be based on securing the optimum tax efficiency, in order to be able to secure the best possible end-price to the BBC. Certain major companies have already been discreetly sounded, at senior management level, and are willing in principle to join in promoting the venture, ensuring strong financial and management backing.

8.3 The longer-run objective of the satellite operating company will be to become a leading UK provider of commercial satellite services. These corporate aims are however secondary to meeting the BBC requirement with maximum efficiency and economy - indeed this is the fundamental initial service aim of the company. Wider opportunities could only follow if the BBC needs were met first.

8.4 At this stage it is not intended to involve either British Telecom or Mercury in the ownership of the satellite operating company, but these options are not ruled out and might for example become necessary for political reasons. However, if either were involved this would be only as partners with other investors, and there would be no question of either being effectively in equity or management control of the project.

9 Political considerations

9.1 It is fully recognised that there would be considerable political delicacy in organising an alternative to Unisat. Absolute confidentiality of contract negotiations would be required, to avoid alerting other parties to the possible change of course before the alternative had been properly explored.

9.2 As a measure of the confidentiality already maintained on the earlier proposals to Government for a telecommunications satellite system, it is noteworthy that there has been no public disclosure of the fact that there had been a licence application before Government since May, and that discussions with Government had been under way for many months before.

9.3 Further, some of the team involved with this work had been involved at the inception of the Mercury project in July 1982, and it was many months before British Telecom were alerted to the emergence of a rival telecommunications network.

9.4 Thought has already been given to the political and press handling necessary to allow the BBC to change course. The main argument, of course, would be that the proposed alternative project is so compelling on technical and cost grounds that the BBC have no real option but to avoid all the risks inherent in Unisat. However, this general theme would have to be deployed carefully to Government and subsequently in public, and at this stage the discussions would have to be conducted in absolute confidence to allow proper time to the BBC to evaluate the alternative without coming under unreasonable political pressures.

9.5 One major aspect of the political handling concerns the degree of UK content in the project. Again, there are already specific proposals on this score, for instance in terms of securing substantial work within the project for British Aerospace and even leaving the appearance that they are leading the project, but in practice keeping the project under firm US control to ensure full performance of the contract with the BBC. British Aerospace would in fact make reasonable supplier profit on the project, whereas they stand to lose heavily on Unisat. With mounting British Aerospace pressure on Government for financial assistance with the European Airbus, against a background of a severe public expenditure squeeze, British Aerospace have larger matters to lobby for than Unisat, and there are ways to persuade them that their wider interest lies in relinquishing the design lead on the BBC satellite project without losing work for their plants in system production.

9.6 Other major British firms could gain very substantial sub-contract work, helping to create a countervailing pressure against lobbying from Unisat. Above all, the satellite operating company would act as a buffer to pressure on the BBC.

10 Next steps

10.1 The proposals in this document represent a major change of course for the BBC, but there is confidence that the alternative is both feasible and can be financed. It will be necessary for the BBC to consider whether, at this stage, there is merit in at least examining more closely the proposals, especially the technical details as compared with the technical doubts about Unisat.

10.2 Discussions with the BBC on these proposals can be held as soon as the BBC is ready, and would of course be conducted with total confidentiality.

10.3 If the BBC, in the light of these discussions, wishes to pursue the proposals further, a detailed programme of work for the detailed structuring of the alternative proposal would need to be settled. A formal proposal for the entire system could be submitted during October, and decisions to commit to the alternative system would need to be taken to allow detailed agreements to be reached by the end of December, to ensure system launch by June 1986.

10.4 There would be a contingent risk that the BBC would be prevented from pursuing an alternative. At this juncture it is intended that, subject to an agreement on the sharing of costs if major work has to be aborted, any immediate work to supplement the work already done could proceed without cost to the BBC.

CONFIDENTIAL

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Brief for the Debate on the Development
of Cable Systems and Services.

Thursday, 30th June 1983.

~~J~~
29/6

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Enquiries on this brief to:
MR NIGEL CLARKE

1. Background

About 2.6 million households in Britain, or 14 per cent of those with television sets receive their television services by means of cable systems. About 1.5 million (8 per cent) are connected to the systems provided by some 440 commercial operators; the remainder are connected to 'non-commercial' systems operated by local authorities, housing associations and so on. An estimated further 2 million homes are passed by cable systems. In recent years there has been a slow decline in the number of subscribers to commercial systems and a rise in those receiving signals from non-commercial systems.

The transmission of radio broadcasts over wire to individual homes began in Britain in the 1930s in order to provide services to areas of poor reception. This 'relay' role was extended to television after the second world war. In general the Home Office has allowed companies to relay only broadcast programmes thus restricting them to providing the existing channels, although there have been experiments with pay-TV in the 1960s and community television in the 1970s. In September 1981 the Government granted a two-year licence for 13 pilot subscription television schemes (see below).

A modern cable system is capable of providing a very large number of services. In addition to providing an increased number of entertainment services, including the relay of both conventional and direct satellite broadcasts, subscription television, and specialised subject channels, cable systems are also capable of providing two-way communication, enabling subscribers in their homes to order shopping, make holiday bookings, bet on televised horse-racing and make use of banking facilities. Practically any substantial minority interest may be able to justify the use of a channel, including, for example, educational services such as the Open University and evening classes provided by the local authorities.

During the last thirty years the number of television channels in Britain has risen from one to four. During the next ten years the range of choice could rise dramatically: 40 channels (or perhaps even double that number) of television and information could become available.

The Potential of Cable. In the longer term, cable systems could carry two-way information services such as electronic banking, shopping from home and household security systems. Mr Baker, Minister of State for Trade and Industry, has spoken of the possibility of developing a national "electronic grid" built on the basis of revenues generated by entertainment television. He has said (31st August 1982) "It is a programme of major investment ... something in the region of £2-3 billion for half the country. This is likely to be an underestimate... These funds can come from the private sector. Indeed this whole project is one of the four major areas which can be financed by private capital... In laying down the grid, much equipment will be needed from the newer industries... There is the prospect of exports not only of

programme material but also of hardware... The electronic grid will provide the basis of the information society."

The Foreign Experience. In the United States about 30 per cent of all households (23 million subscribers) are able to receive cable television. In Canada the proportion is as high as 60 per cent. But the widespread use of cable is by no means confined to North America. In Belgium and Holland cable has already reached the Canadian level. Furthermore, exactly the same interest in cable which now exists in Britain has also arisen in France and West Germany. Within days of the publication of the Hunt Report here, France and Germany announced major plans for the expansion of cable.

Fresh Employment. All the estimates that have been made suggest that the number of new jobs which cable could bring would be substantial. Rediffusion, the largest existing cable operator in Britain, believes that at least 20,000 jobs would be created within five years; and probably far more.

2. Government Initiatives

a. Satellite Broadcasting DBS. On 13th March 1980, the Home Secretary commissioned a Home Office study of DBS, which was published in April 1981. On 4th March 1982, the Government announced that "an early start" would be made by bringing two channels into operation in 1986, which could be increased to five as and when sufficient demand arose. The then Home Secretary, now Viscount Whitelaw, made clear that "as regards finance, the Government expect the capital cost of providing the satellite system to be found in the private sector". (Hansard, 4th March 1982 Col. 414). Mr Kenneth Baker explained that an early start in 1986 "will enable industry to exploit overseas markets. We have a real edge here... It will benefit the British space industry's work load. It will boost the information services... The satellite will be the first privately financed satellite in Europe. It will cost £150 million to £200 million. It will be made and designed entirely in Britain." (Hansard, 20th April 1982, Col. 232).

In no sense is there any conflict or tension between DBS on the one hand, and cable on the other. On the contrary, as Mr Baker has stressed: "DBS and cable systems are mutually supportive. There is not a stark choice of one or the other. We would envisage a mixed system" (20th April 1982, loc cit). If cable systems were in operation by the time satellite broadcasting services start in 1986, they could provide subscribers with a cheaper and more convenient means of reception than would be possible with the individual dish aerials proposed. This point was made forcibly to the Government by its own Information Technology Advisory Panel.

b. Report of Information Technology Advisory Panel (March 1982)
The Panel came out clearly in support of any early start to DBS, and underlined the extent to which DBS and cable could complement one another (see above). As regards cable itself, it concluded that powerful economic and industrial arguments existed for encouraging the installation of cable systems in

Britain. It estimated that it could cost some £2,500 million to provide modern cable services to half the homes in the country (i.e. those living in urban areas), all of which could come from private sources if existing restrictions on the programmes that can be transmitted by cable were lifted. No direct public expenditure would, therefore, need to be involved. This would result in great benefits for the electronics and optical fibre industries as well as for office equipment manufacturers. New jobs would be created in the electronics industry, in cable installation and in providing new programme services.

The Panel acknowledged that cable systems could have a significant impact on existing broadcasting services, and recommended the Government to take urgent steps to examine the possible implications for broadcasting. These, however, should not be allowed to prevent cable systems from developing.

c. Subscription Television Pilot Schemes. The most significant recent practical development in cable television was the previous Home Secretary's decision in 1980 to license 13 pilot subscription television schemes, in which cable operators provide an additional programme service, consisting in general of recent feature films, on payment of an additional monthly subscription by households. All the schemes are now in operation, and are intended to last for two years. They will provide information on the public demand for such extra programme channels and also on the effect on viewing habits and therefore on other programme services.

Referring to this important initiative, Viscount Whitelaw said (9th November 1982): "It is too early to draw any firm conclusions (but) I think it is already clear that at the right price there is a market for more entertainment services to the home. The most recent figures sent to the Home Office show... about 18% of the 100,000 or so connected to the cable systems were taking the pay channel."

d. The Hunt Report. (Cmnd. 8679) which was published on 12th October 1982, proposed expansion subject to a minimum of official restrictions. Its principal recommendations were:

- * A central authority to award franchises to cable system operators and exercise "oversight" by ensuring that operators live up to their promises and by hearing complaints.
- * Franchises awarded on the basis of competitive bidding, initially for 10 years.
- * No enforced separation between providers of physical cable networks, cable operators, programme providers and programme makers.
- * No limit on the number of cable channels offered. Programme diversity encouraged. Operators free to set charges and determine their programmes and services.
- * Decency standards the same as those imposed on the BBC and ITV, with no special impartiality rules. "Premium" channels, available only by special subscription, which the viewer could blank out with an electronic "lock" on the receiver, would not have to comply with such standards.

* Freedom to carry advertising and sponsored programmes. "Pay per view", whereby subscribers pay to watch a particular programme not allowed at present.

* New cable systems required to carry all BBC and ITV channels.

The conclusion of the report was clear: "Cable television is all about widening the viewers' choice. It should be innovative, experimental and sensitive to local feeling. It cannot be run as though it were another branch of public service broadcasting."

THE GOVERNMENT WHITE PAPER "THE DEVELOPMENT OF CABLE SYSTEMS AND SERVICES" (Cmd. 8866): A SUMMARY

The Government published the White Paper on the development of cable systems on 28th April 1983. It covered the entire field, from cable technology to broadcasting standards. It proposes that cable operators should seek the award of franchises for areas, cable providers should be licenced, and that a Cable Authority be set up to award franchises and oversee the services provided.

Further proposals are made concerning cable technology, broadcasting policy with regards to cable, standards of programme content, and the relationship between cable and the national telecommunications structure.

a. Cable Technology

1. The Government does not believe that it would be right at this stage in the development of cable to prescribe a particular type of system design: cable providers may therefore use star switched or tree-and-branch technology. Because of the longer term attraction of the star switched technology it will however be mandatory for all underground ducts for new cable systems to be laid in a star configuration and to be of adequate size to allow for subsequent developments.
2. Coaxial cable and optical fibre will be permitted. It is likely to be some years at least before it will be economic to use optical fibre throughout cable systems.
3. The Government wishes to encourage the development of cable systems which will permit the provision both of programme and interactive services. All cable systems will therefore have to be designed to high performance standards. The Government's final decisions on system specifications would await the completion by the Technical Working Group of the preparation of draft British Standards.
4. The Government believes that cable investment should be privately financed and market led. Estimates of the likely cost and speed of cabling vary but investment will inevitably be spread over a number of years and the private sector ought to be able to finance it from normal sources without any special difficulty. New jobs will be created both in the short term during the construction phase, and in the long term.

c. The Cable Authority

1. A new statutory Cable Authority will be established to award cable franchises and to exercise a measure of oversight over the services provided.
2. The Authority will initially have a Chairman and six other Members. Members will be appointed by the Home Secretary in close consultation with the Secretary of State for Industry. Appointments will be for renewable periods of five years and will be part time. The Authority will be financed by fees paid by franchise holders.

d. The Franchising and Licensing Process

1. The Cable Authority will have the statutory responsibility of awarding franchises to cable operators for the provision of cable services. The cable provider will require a separate telecommunications licence from the Secretary of State for Industry, in consultation where appropriate with the new Office of Telecommunications.
2. It will be for the Cable Authority to determine the size and shape of franchise areas. The Government envisages however that no system would be larger than about half a million homes and expects the majority to be significantly smaller. The Authority will be required to take account both of market forces and of natural community groupings. In determining the precise limits of a franchise area the Authority will be able at the margin to include areas of less economic appeal to the investor. The Authority will not, however, be required at this stage to seek to extend cabling to whole areas which would be uneconomic. It is felt that if the Authority were required to extend cabling to the whole country immediately, it is possible that excessive and premature cross-subsidisation by companies still establishing a profitable operation could actually retard the spread of cable.
3. Companies wishing to obtain licences as cable providers or franchises as cable operators must be under UK/EC control. Central and local government and religious and political groups will be excluded from any stake in the ownership of companies holding franchises or licences.
4. The Cable Authority will, however, have a duty to use its franchising powers in a manner which will prevent concentrations of power in particular areas which would be contrary to the public interest.
5. Cable franchises will run for 12 years in the first instance and 8 years thereafter. Initial cable licenses will be granted for 20 years for switched star systems and 12 years for tree-and-branch systems, extendable to 20 if switches are subsequently installed.
6. The Cable Authority's ultimate sanction will be the non-renewal or premature withdrawal of an operator's franchise. Short of that it will have the power to direct that certain programmes or channels should not appear on cable and, after issuing a warning, to subject an operator for a period to a tighter degree of supervision than normal.

e. Broadcasting Policy and Cable

1. The Government endorses the objective of the BBC and IBA to maintain the range and quality of the broadcasting services now available to all. The broadcasters will themselves be free to play a role in cable and they start from a position of strength. In the longer term the growth of cable could necessitate considerable change in existing broadcasting arrangements but cable has first to establish itself and the Government has no plans to modify the existing duties and obligations of the broadcasters.
2. A wider range of advertising will be possible on cable than on independent broadcasting. With appropriate safeguards some sponsorship will also be permitted. Cable advertising which is analogous to ITV and ILR advertising will be restricted to the amounts allowed under IBA rules. Classified advertising and channels wholly or mainly devoted to advertising will be excluded from this limitation. The Cable Authority will be responsible for drawing up a Code of Practice for cable advertising. It will share a joint statutory advisory committee with the IBA and the two Authorities will be required to ensure that they adopt a common core of rules.
3. Cable operators will not be permitted to obtain exclusive right to certain major national sporting and other events. The Government hopes that the precise list can be agreed between the broadcasters, the Cable Authority and the cable operators. The Home Secretary will have a reserve power to determine the list in default of agreement.
4. Pay per view will be permitted on cable, except that operators will not be allowed to offer a programme on that basis if, as a result, one of the existing public service channels is deprived of an event which it has customarily covered. The Cable Authority will draw up detailed rules. Pay per view will also be available for DBS channels.
5. The Cable Authority will, in considering franchise applications, give particular weight to companies' plans for using and generating programme material of British and European Community origin. It will be required to satisfy itself that a proper proportion of such material is shown on each channel, having regard to the channel's intended character and taking account, as relevant, of BBC/IBA practice.

f. Programme Services and Content, and the Role of the Cable Authority

1. Cable operators will be required to relay the four existing BBC and IBA television channels appropriate for their area. They will also be required to relay BBC and IBA radio services. All systems will have to include provision for the five DBS channels allocated to this country by international agreement. Operators will, on the basis of appropriate financial arrangements agreed with the broadcasters, be required to offer any subscription financed DBS channel to those of their customers who wish to pay for it.

2. The general and positive programme quality obligations which apply to public service broadcasting will not be appropriate for cable. The Government proposes, however, that all cable channels should be subject to the same good taste and decency rules as existing broadcasting. The Government does not believe that so called "adult channels" should be available on cable systems. It will be for the Cable Authority to interpret and apply the taste and decency requirement. The legislation will not provide for the classifications of the British Board of Film Censors to have any formal bearing on the Authority's decisions. The legislation will make it clear that cable channels will be subject to the provisions of the Obscene Publications Act.

3. The Government proposes that the Authority should be required to exclude any bias across the generality of services on a particular system, to ensure that news coverage is accurate and impartial, to see that there is impartiality of access to any community access channel, and to exclude particular religious or political groups from the control of individual channels. Subject to these requirements the Government believes that cable should enable greater freedom for the expression of political and religious viewpoints than has been possible on public service broadcasting.

4. The Cable Authority will need to adopt various methods of supervision according to the particular nature of each of the programme content obligations. In general the Authority will operate on the basis of its own selective sampling and retrospectively in response to complaints. It will, however, have the power to take action before a programme is shown if it comes to its attention that something unsuitable is to be screened. Informal consultation between the Authority and cable operators is likely to develop. The Authority will also need to develop a relationship with programme providers who distribute material to a number of cable operators. The Authority will be able to monitor such material centrally.

5. Cable operators will be allowed to relay foreign broadcasting services though reception cannot be guaranteed protection from radio interference from domestic services. The Cable Authority will have a duty to draw up rules dealing specifically with the relay of non-British channels.

6. Cable operators will be authorised to receive and distribute programme services transmitted by low-powered telecommunications satellites provided the originators of the service give their consent and provided operators follow such procedures as are necessary to ensure that their earth stations do not come to represent a constraint on the development of the terrestrial telecommunications network.

7. Questions of copyright are being considered in the Government's general review of copyright law.

8. The availability of new feature films for cable showing will be for the industry to determine. Other film issues relevant to cable such as the Eady levy are being considered by the Department of Trade in its current review of its relations with the film industry due to be completed in the summer.

9. There are a number of other detailed matters, including the privacy implications of cable, to which the Government intends to give further thought in preparing the cable legislation.

g. Telecommunications

1. Cable's relationship to the national telecommunications structure has to be considered against the background of the Government's wish to increase competition in the provision of telecommunication services and apparatus so that industry and the consumer can benefit from resulting improvements in efficiency.

2. The existing national telecommunications operators, BT and Mercury, will not be given the exclusive right to run cable systems nor will their participation in every cable consortium be mandatory. They will however be free to compete with other potential cable providers. In addition:

- (i) BT and Mercury will retain the exclusive right both to link local cable systems and to provide voice telephony services on local systems;
- (ii) Because of the importance for the revenue of BT and Mercury of providing high density data services in the principal UK business locations there will be restrictions in some areas on the provision of data services by cable operators: in the City of London, the Borough of Westminster and Camden in Central London and the business centres of Manchester and Birmingham cable operators will, for the initial franchise period, be allowed to provide data services only in collaboration with BT or Mercury.

h. The Way Forward

1. The Government proposes to introduce legislation at the earliest practicable opportunity to establish a Cable Authority with the necessary statutory powers.

2. The general development of the Government's cable policy must await the enactment of legislation. But the importance of maintaining momentum is felt to justify some limited pre-legislative steps:

- (i) The Government will be prepared to authorise a limited number of new cable systems - perhaps ten or twelve - as pilot projects in areas proposed by applicants. Proposals will be expected to offer a positive contribution to the application of advanced technology as well as providing a comprehensive range of programme services and the capability for interactive services;
- (ii) Licences will be for 12 years, with the telecommunications licence extendable to 20 years where switches are installed. Areas will normally be expected to cover identifiable and self-contained communities of not more than 100,000. The initiative for cabling will come from the applicant and there will be no process of local

consultation;

- (iii) Programme requirements will in general be those to be embodied in the statutory framework but some modification will be necessary in the absence of a Cable Authority. Licences will be directly accountable to the Home Secretary for any programme services provided before the cable legislation is enacted. This is not in the Government's view an ideal arrangement but it is acceptable on a short term basis.

3. Once Parliament has debated and if it has approved the White Paper existing relay companies will be authorised to offer additional services over their existing systems. Where because of limited capacity this involves removing one or more of the normal "must carry" channels the operator will be required to make satisfactory alternative means of reception available at no extra cost to the viewer. Licences will run in the first instance until 31 July 1986 but will be extendable thereafter at the discretion of the Cable Authority up to a normal maximum of 5 years though further extensions will be possible in special circumstances. The programme service rules will be the same as those for the new systems.

NC/TK

RESTRICTED



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

21 June 1983

(2)

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Prime Minister

The Chancellor turns

*down the STC request for a
government guarantee.*

mk

New Secretary of State,

STC AND THE TAT 8 TRANSATLANTIC TELECOMMUNICATIONS CABLE

MCS 22/6

Thank you for your letter of 20 June.

I have considered the arguments very carefully, but I am not happy about Government taking on this kind of unpredictable, and potentially very costly, contingent liability, which could last for most of the next decade. And since commercial insurance cover is apparently not available for more than about a third of the potential liability, and STC are unwilling to cover the residual risk, we must assume that there is a significant possibility that any guarantee we extended would be called. Quite frankly, I believe that it would be wrong for us to expose future taxpayers to such a risk.

I am also concerned about possible repercussions. Although the paper by your officials suggests that a one-off arrangement for submarine cables would be feasible, I suspect that when other industries found out about it they would demand similar treatment. And the discrimination would not be easy to defend. So the precedent of a new form of export subsidy could prove very costly.

So much for the general policy arguments. But I am also puzzled as to why STC, while apparently willing to risk the whole amount of the contract value for the first three years, should take so different a view for the period after the third year. Surely their confidence in the system's resilience to "wear out" in the fourth and fifth years should be only slightly lower than in the first 3 years? And, while the risk is bound to increase over the life of the system, so surely should their ability to bear it? They say they are willing to bear

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Direct Broadcasting Pt 4



the first £100 million of the loss after year 3, because they can contemplate risking 25 per cent of their net asset base from the fourth year of the project onwards (ie from 1992). But their net assets will presumably increase as the project proceeds, and by the later years of the warranty period 25 per cent should comfortably exceed £100 million. I really do think that they ought to be able to self-insure that portion of the risk that the market will not cover. And I don't think we should provide Government assistance.

I am copying this letter to the other recipients of yours.

Yours sincerely,

Nigel Lawson

PP
NIGEL LAWSON

Approved by the Chancellor.

22 JUN 1983

12 1 2 3 4

RESTRICTED



DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

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JF3621

Secretary of State for Trade & Industry

20 June 1983

(2)

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

Nigel Lawson

MS

Prime Minister

STC are asking the
government to stand behind
a 10-year warranty to enable
them to compete with A.T&T's
superior asset base.

MUS 20/6

STC AND THE TAT8 TRANSATLANTIC TELECOMMUNICATIONS CABLE

As you may know, Sir K Corfield, Chairman of STC, wrote to Geoffrey Howe shortly before the Election seeking Government assistance to overcome a particular difficulty that had arisen over STC's bid for the TAT8 cable, the first fibre optic Transatlantic cable due to come into service in 1988. The difficulty arises from an exceptional requirement in the request for quotations to quote for 5 and 10 year warranties on the cable.

2 The broad problem had been examined by officials while STC had been preparing their bid and there was Ministerial correspondence. At that stage, we were unable to agree whether we might assist STC and how. But the situation now that bids are in is rather more stark, and that is why Sir K Corfield has written.

3 Bids were requested and received from STC, from Western Electric - a wholly owned subsidiary of AT&T, which in turn will own 44% of TAT8, and from Submarcon of France. STC know that on technical grounds and price their bid is competitive with that of Western Electric; Submarcon are rather more expensive and may be out of the running. However Western Electric, given the underlying strength of AT&T's asset base and indeed AT&T's potential earnings from the cable, were able to quote for a full 10 year warranty. STC, faced with a potential liability worth 50% or more of their total projected asset worth in the 1990's, were unable to offer more than the 2 year warranty. If STC is to maintain a credible bid for this contract, and to do so is important not just for the contract itself but also for their ability to maintain their market lead generally as the new fibre optic technology is introduced, they will have to offer some warranty over the 10 year period required.



4 I believe that it is most important that STC are enabled to stay in play on this contract. AT&T is obviously seeking to use its dominant position in the consortium, where it was responsible for pressing for a 10 year warranty requirement, to put its own subsidiary in an extremely privileged position. STC, with very little Government support, have built up a position as world market leader in conventional submarine cabling. Technically, with some assistance under the Government's fibre optic support scheme, they are well placed to maintain that lead. The need for assistance to meet warranty requirements should be unique to this case, but unless STC can maintain a credible bid, their position on this contract will be unsustainable and, as important, their standing for future business will be severely weakened.

5 The attached paper explains the problem in more detail and suggests a way forward. This involves using the Science and Technology Act to provide a last call cover once STC have made maximum use of insurance market cover and accepted a very substantial element of cover on their own resources.

6 If STC are to offer a 10 year warranty, this needs to be done before 24 June when they begin a major presentation to the TAT8 consortium. I would appreciate an urgent reply.

7 I am copying this letter to the Prime Minister and, with a copy of Sir K Corfield's letter, to the Foreign Secretary, and colleagues on EX Committee.

Yours *Ever,*
A. Clark

Standard Telephones and Cables plc

CHAIRMAN AND CHIEF EXECUTIVE
Sir Kenneth Corfield

STC HOUSE
190 STRAND LONDON WC2R 1DU

TELEPHONE 01-836 8055
TELEX 22385

COMMERCIAL IN CONFIDENCE

25th May, 1983.

Rt. Hon. Sir Geoffrey Howe, QC MP,
Chancellor of the Exchequer,
11 Downing Street,
London. SW1

Dear Geoffrey,

On 16th May, in response to an international invitation to tender, STC bid for the first optical trans-Atlantic submarine telecommunications system - TAT-8. AT&T and the French company CGE have also bid.

The bids have now been opened. It appears that STC's proposals are highly competitive.

First, we are able to propose an "All British" solution with technology largely developed by STC and British Telecom; competitors may well have to use "imported technology" - AT&T, for example, propose the possible use of Japanese lasers.

Second, our proposals are highly competitive on price - STC had to bid in Sterling and the Dollar rate is calculated through a complicated formula applied over the next few weeks. The indications are, however, STC's price will be similar to that proposed by AT&T.

It is on a third and key aspect of the bid where we find STC is unlikely to prove competitive. STC has been unable to fully insure the system we propose against failure, and we have therefore only been able to offer a two year warranty. AT&T has offered ten years, and is advantaged in its position because, as the largest single shareholder of the partners purchasing the system, it is assured of the revenue generated by the system when operational.

...../

The private sector was only able to offer us insurance terms which permit us to put forward a two year warranty because it is only in the early stages of developing such insurance and the market is therefore small. The issue is, moreover, complicated by the relative newness of the technology and, inspite of STC's management record in the world's submarine business (STC holds some two thirds of the world market for technologically established systems), the private sector is willing to take only limited risk. We subsequently had long and helpful discussions with Ministers and officials from the Departments of Trade and of Industry in order to examine whether Her Majesty's Government might act as Guarantor of last resort. Sadly, HMG was unwilling to do this, and so we have bid on the best terms we dared without jeopardising STC's financial position.

We have the opportunity still to adjust our bid, and I am writing to ask if you, Chancellor, would reconsider HMG's decision and offer to act as guarantor of last resort. The matter is urgent because adjudication is now underway.

I believe it is critical for STC's future submarine systems business that we are able to improve the credibility of our bid by extending the warranty to cover the full ten year period.

I would be pleased to discuss this with you at any time.

I am copying my letter to the Prime Minister, to the Secretary of State for Trade and to the Secretary of State for Industry.

Yours sincerely

Ken

STC BID FOR THE TAT8 SUBMARINE TELECOMMUNICATIONS CABLE

Summary

Standard Telephones and Cables have sought Government guarantees to help them to meet the warranty requirements for the next trans-Atlantic telecommunications cable system, known as TAT8. The project is worth over £200m, but the successful tenderer will have to guarantee the new system, which will be the first long-haul submarine cable incorporating optical fibre and laser technology, for up to ten years. This paper proposes that the Government agrees to offer a degree of contingent support for STC, but on considerably harder terms than those proposed by the company.

Background to the TAT8 tender

2 The full background to this case is involved and complex; it has been set out in extended interdepartmental correspondence at official level and also in previous Ministerial exchanges. Briefly, STC are competing with the American Western Electric (WECO) and the French CIT-Submarcom for a contract to be let by the end of this year, the system to be in service in 1988. The customer is an international consortium of national telecommunications authorities including British Telecom. The consortium is dominated by the US operator, AT&T, which holds 44% of the voting power. AT&T is also the parent of WECO, which accordingly has an exceptionally strong position in the competition.

3 In particular, AT&T's insistence that bidders for TAT8 offer as options full warranty for two, five and ten years - as against the usual convention on previous copper co-axial (analogue) cables of only a two year warranty - exploits this advantage. Such extended conditions can readily be met by WECO, backed by the vast assets of AT&T (including the capabilities of Bell Laboratories) and also the further strengthening AT&T will derive from the substantial revenue flows from the TAT8 link.

4 By contrast, such long term guarantees prove extremely onerous for a company like STC, for whom the potential liability could greatly exceed their current asset base, or even for CIT-Submarcom, despite the latter's French Government shareholdings. When bids were opened last month, AT&T had complied fully with the warranty requirements, as well as putting in extremely aggressive prices which appeared to incorporate no value-added costs or insurance premiums. STC offered only a two year warranty, although their prices were within 5% - 10% of the Americans. CIT-Submarcom declined to offer warranties without any share in the revenues, and were some 15% higher on prices than AT&T; they have recently offered to lower some of their prices.

5 Bids are now being evaluated, and a decision will be reached by November. However, AT&T are seeking to have the UK and French bids ruled out now, as non-compliant. STC conclude, and BT from

their vantage point on the co-owners group agree, that they must improve their offer on warranties in the next few days if they are to stay in the race. At stake is not just STC's chances of winning TAT8, or at least gaining part of the business from it, but more importantly their standing and credibility in future competitions for optical cable links, which will mostly be let by the same authorities as TAT8, though with different relative participation. AT&T, forced by US liberalisation into the world market, are clearly intent on exploiting the transition to a new technology and their special advantages in TAT8 to wrest from STC the market dominance which STC has enjoyed for analogue systems.

Background to Government involvement

6 STC have had remarkably little Government support in maintaining their 50% share of the market for analogue cables. Their reasons for seeking special support now stem from several unique features of the TAT8 competition, viz

- the size of the contract (and hence the potential liability) against STC's asset base;
- the timing of this tender relative to the development of optical fibre technology. Since no-one has any operating experience with such technology, it is impossible to make assessments of the risks involved over an extended period (in the way that can be done for analogue systems);
- the fact that commercial insurance is not yet available for this untried technology;
- the particular position of AT&T (and WECO) in this consortium.

7 STC have stressed that, even if future optical fibre cable tenders require a ten-year warranty, this combination of factors, and the consequent need to approach Government, will not recur. The likely tenders over the next ten years (after which time much of the current technical uncertainty will have been removed) are mostly relatively small. The warranty conditions for these will be coverable from STC's own resources plus market cover, which should also be more readily available given some proven technical experience. The only large system in prospect in this timescale is one from Europe to South Africa, and STC would have the benefit there of an equity stake in the South African operators.

8 In view of these considerations, Mr Baker (MOS, DOI) wrote to the Minister of State at the Treasury on 22 April, proposing that the Government indicated its willingness in principle to help STC over the contingent liability of a compliant bid for TAT8 subject to conditions over the total Government exposure and STC making maximum use of whatever commercial insurance they could obtain. Mr Wakeham replied on 6 May, rejecting the proposal on the grounds that the maximum liability did not appear to be more than STC's assets could cover by the mid-1990s, and that adequate commercial

cover would, in the Treasury's view, be available to them by that time.

9 STC, on the strength of having established that their bid is commercially and technically competitive, providing they can offer improved warranty terms, returned to the fray with a letter to the Chancellor, dated 25 May, asking the Government to act as guarantor of last resort for the full warranty. Following discussions with officials this request was put more specifically, as follows:

- Government to share 50:50 with STC any shortfall in the total cover available from the insurance market;
- STC to take on a maximum liability of 100% of contract value in the first two years;
- STC to bear a maximum liability of 25% of corporate net assets thereafter, put at £100m;
- any commercial cover obtained to be set equally against reducing STC's and the Government's total exposure.

The Issues

10 Such an undertaking from HMG would go much further than was sought in April, and would imply a Government exposure considerably greater than STC's on all but the cheapest option. (Bidders are required to quote for five different options, varying accordingly to the number of landing terminals chosen, ranging in cost, for STC, between £180m and £280m; the likely options are in the range £180m - £225m). This is not a tenable proposition.

11 The complexities of the issue admit many questions, but the key ones concern:

- the nature of the risks implicit in offering guarantees;
- the size of the liability base for which any guarantees would be exposed;
- the prospects for obtaining commercial insurance; and
- the contingent liability which STC could reasonably be expected to bear, given forecast asset strength.

12 STC have characterised the technical risks of submarine cable systems into three phases: "infant mortality", "prime of life" and "wear out". They are confident, from the testing they have done to date, that the risks of a system failure in the first two phases are sufficiently small that they could assure themselves - hence their willingness to bear 100% liability for the first

two years. They are also confident that the incidence of isolated faults during these two phases will be no more than they can cover. However, neither they nor any other supplier has any means of predicting any unknown weaknesses in the new technologies which would bring forward the "wear out" phase - normally planned for analogue systems to come not earlier than 25 years from installation. Such premature wear out might arise anytime from the second or third year onward, and (in the absence of contradictory experience) the probability must increase with time. If this did arise, it would quickly lead to a system failure and the calling of full liability guarantees. The point is not that STC expect fear such premature wear out; rather, at this stage of development they have no basis for expecting otherwise, and so must stand prepared at this point in time able to cover the full liability from the second or third year onwards.

13 The tender requirements specify a liability base over the whole warranty period(s) more-or-less equivalent to the full contract price. For the most likely option, B, this would be £225m. However it can fairly be argued that over the ten years (assuming that warranty period), the cable operators will have benefitted from traffic revenues from TAT8, while at the same time amortising the value of their stake in the cable. It would appear reasonable, in that case, for the supplier's liability to be similarly written down. This has indeed been proposed already by Submarcom, and BT accept that it represents a reasonable case, which they could press on their co-owners. Assuming a cable life of 25 years, this would suggest a total liability reducing over a ten year warranty ... from 100% to 60% of the contract value. The attached graph illustrates this for Option B.

14 The insurance market for the kind of high-technology catastrophe risk sought by STC operates on the fringes of normal commercial markets. It is not possible to obtain commitments now for cover five years hence, nor will such cover be available for more than three years at a time; the volume of available underwriting finance is as much a constraint to the amount of cover available as estimates of the risks. The best indication currently available is that, by 1988, STC should be able to obtain up to \$100m (say, £65m) of total risk cover, for an initial period of three years. In addition, they expect to get up to £10m of product liability cover, against isolated faults, initially for 5 years. It is reasonable to assume that by 1988 STC will be able to obtain cover from both sources, at least for the initial periods. This should enable them to offer warranty on their own behalf for years 1, 2 and 3 (ie one year beyond their current proposal). After the first three years, they would hope and expect to roll forward the commercial cover, but there is no guarantee of this. At the same time, the risk of premature system failure - the key unquantifiable factor in all this - is increasing. It is therefore after year 3 that STC feel themselves really in need of Government backup.

15 STC's net tangible assets at the end of 1982 were £207m. By the time they would be exposed on TAT8 they estimate this figure will have doubled. Accordingly, they have proposed that £100m, equivalent to 25% of forecast corporate assets, is the maximum contingent liability they could prudently bear without endangering the financial health of the company. The

Industrial Development Unit is of the opinion that this is not an unreasonable view. Indeed, a contingent liability carried on STC's balance sheet even at this level could materially constrain their credit rating and hence their scope to undertake other profitable activities elsewhere in the company.

16 Nonetheless, STC have already shown themselves prepared to take on liabilities in years 1-3 of between £150m - £133m (on Option B, assuming initial commercial cover is available). It does not therefore seem unreasonable for them to consider total exposure of a similar magnitude in the later years (4-10), given that their asset base will be then have grown.

Proposal

17 We have held extensive discussions of the STC proposal, with the company, with BT and between Departments. A proposed basis for Government guarantees, incorporating the main considerations to emerge from these talks, is shown on the graph. Under this proposal, STC would offer the full ten year warranty, but on a diminishing liability base, amortized over a twenty-five year system life. For the first three years STC would be required to cover the liability themselves, drawing on commercial sources assumed to total at least £75m. From Year 4, the Government would guarantee up to £50m of the liability subject (a) to STC bearing at least £100m on their own account, and (b) any continued commercial cover going first to offset the Government's exposure.

18 The particular amount at risk to STC and to HMG would depend on the eventual contract value and the level of commercial cover available in each year. The graph illustrates how this proposal would work if STC won option B at £225m, also obtaining £10m of cover, for five years initially, and plus a further £65m (\$100m), for three years initially. The uncertainties then concern the availability of commercial cover after year 3, and the possible outcomes, for this example, are as follows:

YEAR	BEST OUTCOME (MAX. LIABILITY)			WORST OUTCOME (MAX. LIABILITY)			(TOTAL)
	STC	HMG	MKT	STC	HMG	MKT	Liability Base
4	100	24	75	139	50	10	(199)
5	100	15	75	130	50	10	(190)
6	100	5	75	130	50	-	(180)
7	98	-	75	122	50	-	(172)
8	87	-	75	112	50	-	(162)
9	79	-	75	104	50	-	(154)
10	70	-	75	100	45	-	(48)

19 A formulation on these lines is designed to meet most of the Treasury's expressed reservations, in that it leaves most of the liability on STC, it limits the maximum Government exposure, and it concentrates the "real" Government exposure (ie that remaining

even with commercial cover invoked) to years 4-6 (1992-1994). Treasury officials have suggested that pressure be maintained on STC to obtain the maximum market cover, beyond the £75m currently envisaged. There would in fact be a strong onus on STC to continue seeking the maximum market cover, since the benefit of cover obtained beyond £75m would accrue entirely to their exposure in years 1-3 and year 7-10. In addition, we would require STC to pay a premium no lower than market rates for the exposure actually borne by HMG in any years; this would be around 1% pa.

20 As before, any Government guarantee would be on a last call basis, although the caveat is largely hypothetical: there is in practice no half-way stage between a few isolated "rogue" faults (rectified by STC themselves) and a total system collapse invoking the whole liability. The guarantee would be given under Section 5 of the Science and Technology Act; hopefully this would be achieved without public debate (and consequent publicity) by laying a minute before Parliament.

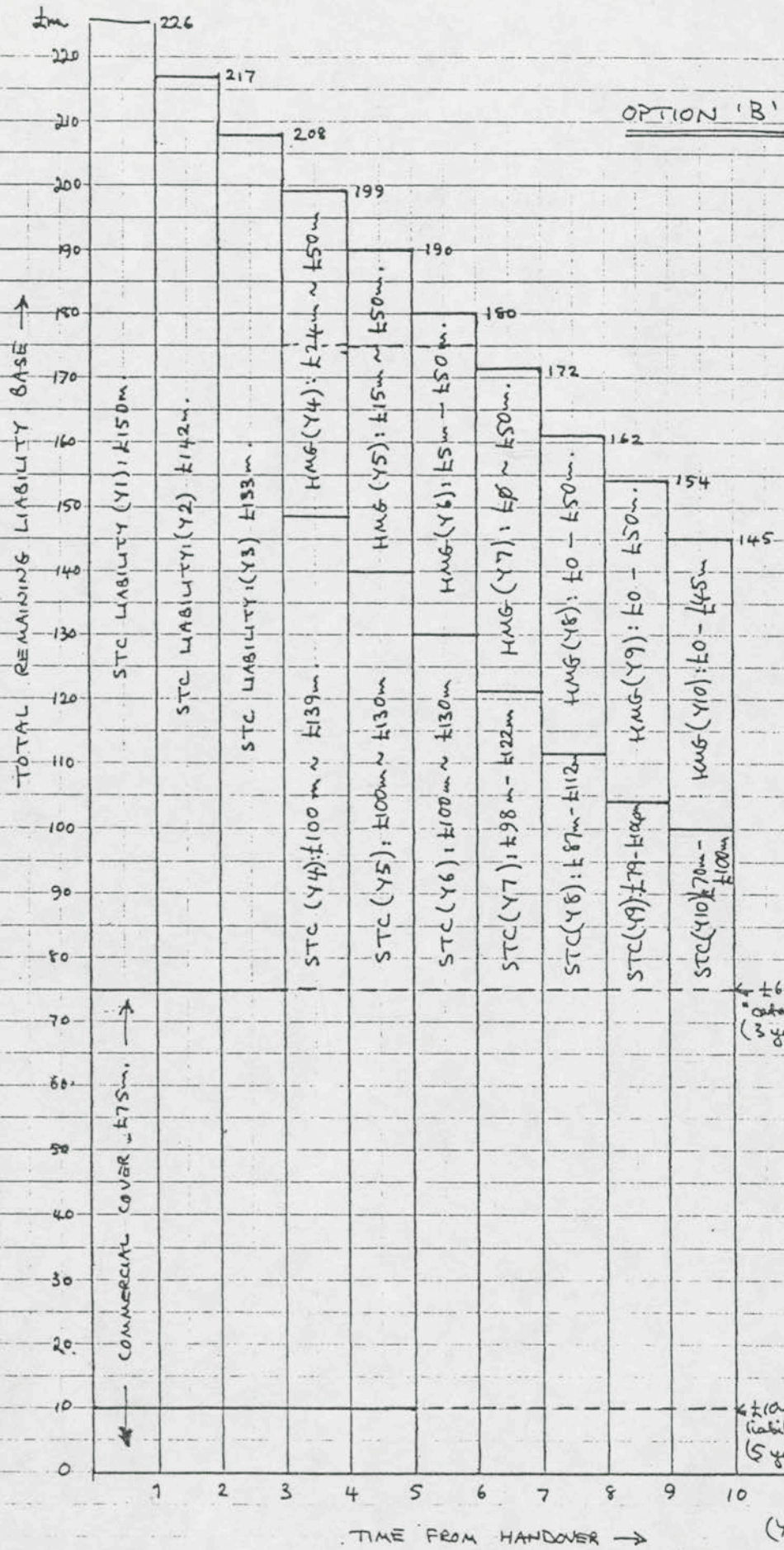
Recommendation

20 We recommend that the Secretary of State now replies to STC, offering to meet their request for Government guarantees on the following basis:

- a) the Government would be prepared to offer contingent liability guarantees up to a maximum of £50m (less if STC win an option A, worth £180m);
- b) this support would be available from the beginning of the fourth year after TAT8 is in service;
- c) any commercial cover obtained by STC would be applied in the first instance to reducing the Government's liability;
- d) STC would pay a premium, to be negotiated but not less than payable on commercial cover, to the amount of remaining Government exposure in any year;
- e) STC would offer a ten-year warranty, but on a declining total liability base, reducing by 1/25 of the contract value in each year.

Projects and Export Policy Division
Department of Trade and Industry

16 June 1983

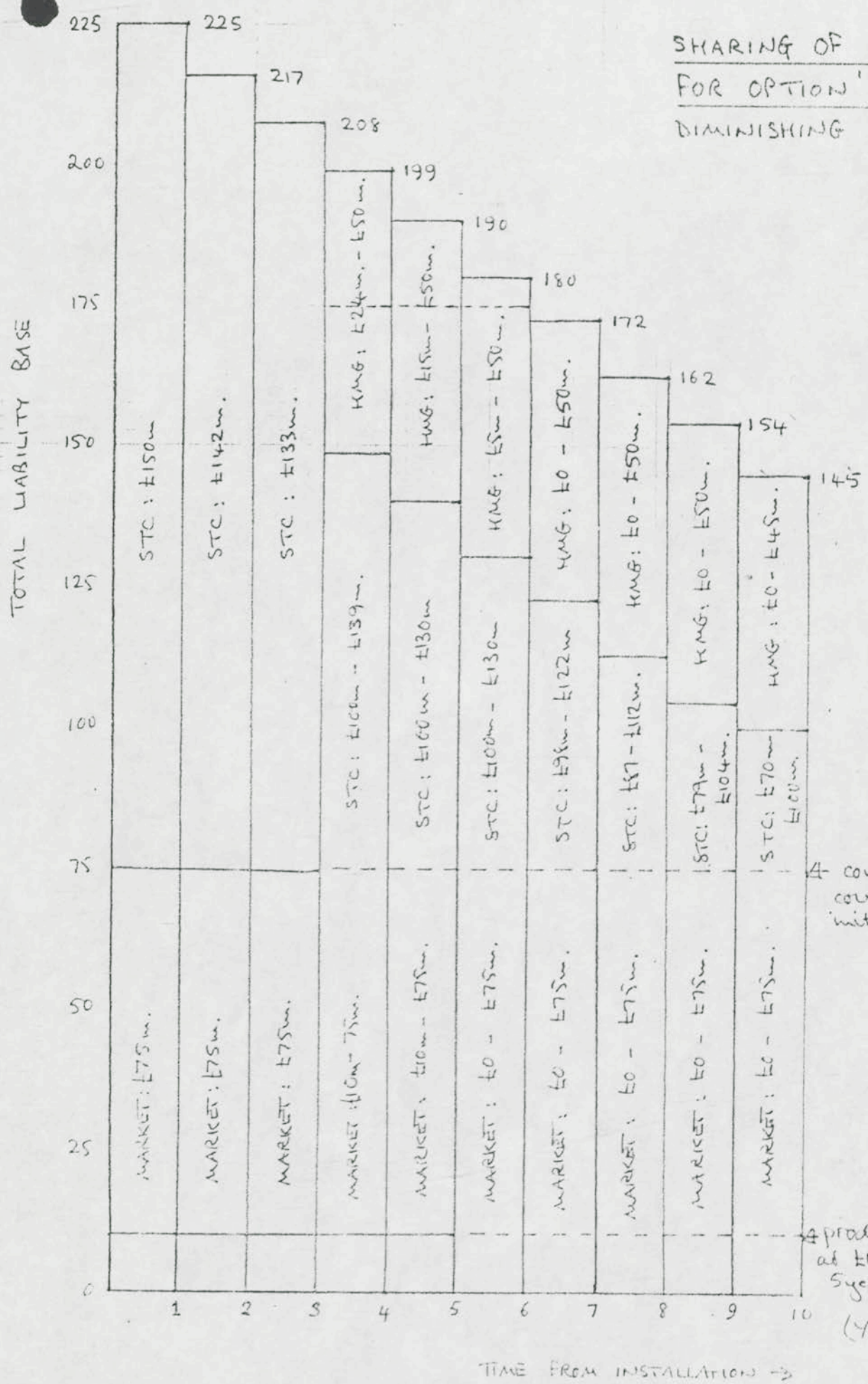


OPTION 'B'

£65m commercial "catastrophe" cover, (3 years initially)

£10m product liability cover, (5 years initially)

(£m)



SHARING OF LIABILITIES
FOR OPTION 'B' (WITH
DIMINISHING TOTAL BASE)

4 commercial reinsurance cover, at £65m for initial 3 years.

4 product liability cover, at £10m for initial 3 years.

* This illustrates the possible sharing of exposures on Option B, assuming market cover limited to £75m; see paper for further discussion.



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

Sir Kenneth Corfield
Chairman and Chief Executive
Standard Telephones and Cables Ltd
190 Strand
LONDON WC2R 1DU

6 June 1983

Dear Kenneth

Thank you for your letter of 25 ^{attached} May about the tender for the TAT 8 fibre-optic cable system.

The competition for this contract is certainly formidable, and it is very encouraging that you think STC's bid is competitive on price, and that you will be proposing a system which will rely on technology developed in this country.

The problems of the insurance of the system were brought to our attention by Kenneth Baker at the end of April. The solution you propose raises a difficult problem for us, and while I fully recognise the importance of the contract for STC, my initial reaction is that it is a little difficult to envisage how the Government could justify accepting a contingent liability of this kind. I understand, however, that the Department of Industry will be holding further discussions with your people in the next few days.

Copies of this letter go to the Prime Minister, Patrick Jenkin and Arthur Cockfield.

[Handwritten signature]

GEOFFREY HOWE

F6 July 1983

11 12 1



NBPM

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

MCS 4/6

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

6 June 1983

Dear Patrick

STC AND THE TAT 8 TELECOMMUNICATIONS CABLE

You wrote to me on 1 June about STC's bid for the TAT 8 contract.

The position on this contract is clearly complicated and still quite fluid. I entirely agree that it would be useful for officials from both our Departments to re-open discussions with STC.

... I enclose a copy of my reply to Kenneth Corfield.

I am copying this letter to the Prime Minister and to Arthur Cockfield.

GEOFFREY HOWE



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JU806

1 June 1983

The Rt Hon Sir Geoffrey Howe QC
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister

4

[Handwritten scribble]

Mr Jenkin proposes
official studies about whether the
government could insure this STC
against failure long-term - for a quick
decision after the Election
attached

Dear Geoffrey,

STC AND THE TAT8 TELECOMMUNICATIONS CABLE

MS 2/6

Sir Kenneth Corfield copied to me his letter of 25 May about the warranty problems associated with STC's bid for the TAT8 Cable. As he indicated, officials in this Department had had long discussions with his company about this problem and these discussions culminated in Kenneth Baker's proposal to John Wakeham (in his letter of 22 April) that the Government should, within certain limits, be prepared in principle to cover some or all of the remaining liability once the commercial markets own cover had been fully utilised and STC itself had made a realistic contribution from its own resources. The Government's cover would have been clearly that of last resort. John Wakeham rejected that proposal but I have to say that his grounds for rejection do not really address the problem that STC face.

2 Since the TAT8 bids were submitted on 16 May, we have learnt a little more about the competitors' proposals. AT&T are offering the option of a full 10 year warranty but at an addition to the 2 year warranty price that clearly supports our earlier view that AT&T's longer term cover would be offered on the strength of their own huge overall resources - and their income potential as the largest shareholder in TAT8 - and would in no way represent the commercial cost of such cover. This, as STC have discovered, is in any case not available from the market. We understand that the French company Submarcan have indicated in their bid that they will be able to offer longer cover once their negotiations with the French Government have been completed; in other words, they too are not going to commercial sources for the cover.

3 It is clear therefore that STC's difficulty in offering warranty terms any longer than 2 years severely handicaps them even though their bid in other respects shows strong signs of being highly competitive. Their disadvantage stems not from



commercial factors but from an aspect that its competitors can meet either because of their enormous industrial base or because of potential government support. I need hardly repeat the importance which we attach to this contract which will be the first transoceanic fibre optic telecommunications cable and which will put the eventually successful company in a very strong position in this new market which we expect to be expanding significantly by the end of the decade.

4 In these circumstances, I hope you will agree that officials from both my Department and yours should reopen discussions with STC now to examine the present situation (which differs in detail, though not broad substance, from that described by Kenneth Baker in his letters of 22 April and 16 May), so that proposals can be put to Ministers immediately after the Election if necessary. We cannot wait until after the election for officials to start looking at this; the adjudication process has already begun and STC will be making a major presentation to representatives of the Consortium which will own TAT8 in late June. They really need to know by 21 June whether the Government can back their bid in some way.

5 I am copying this letter to the Prime Minister and to Arthur Cockfield.

You are
Rahul

1 JUN 1983



no relevant PPS.

PA

Rt. Hon. Margaret Thatcher, MP
Prime Minister and First Lord of the Treasury

MES

With compliments

2/6

Chairman and Chief Executive
STC House
190 Strand
London WC2R 1DU
Telephone: 01-836 8055

MES to
see

Of PPS!

No.

GR. NO

Standard Telephones and Cables plc

Standard Telephones and Cables plc

CHAIRMAN AND CHIEF EXECUTIVE
Sir Kenneth Corfield

STC HOUSE
190 STRAND LONDON WC2R 1DU

TELEPHONE 01-836 8055
TELEX 22385

COMMERCIAL IN CONFIDENCE

25th May, 1983.

Rt. Hon. Sir Geoffrey Howe, QC MP,
Chancellor of the Exchequer,
11 Downing Street,
London. SW1

Dear Geoffrey,

On 16th May, in response to an international invitation to tender, STC bid for the first optical trans-Atlantic submarine telecommunications system - TAT-8. AT&T and the French company CGE have also bid.

The bids have now been opened. It appears that STC's proposals are highly competitive.

First, we are able to propose an "All British" solution with technology largely developed by STC and British Telecom; competitors may well have to use "imported technology" - AT&T, for example, propose the possible use of Japanese lasers.

Second, our proposals are highly competitive on price - STC had to bid in Sterling and the Dollar rate is calculated through a complicated formula applied over the next few weeks. The indications are, however, STC's price will be similar to that proposed by AT&T.

It is on a third and key aspect of the bid where we find STC is unlikely to prove competitive. STC has been unable to fully insure the system we propose against failure, and we have therefore only been able to offer a two year warranty. AT&T has offered ten years, and is advantaged in its position because, as the largest single shareholder of the partners purchasing the system, it is assured of the revenue generated by the system when operational.

...../

The private sector was only able to offer us insurance terms which permit us to put forward a two year warranty because it is only in the early stages of developing such insurance and the market is therefore small. The issue is, moreover, complicated by the relative newness of the technology and, inspite of STC's management record in the world's submarine business (STC holds some two thirds of the world market for technologically established systems), the private sector is willing to take only limited risk. We subsequently had long and helpful discussions with Ministers and officials from the Departments of Trade and of Industry in order to examine whether Her Majesty's Government might act as Guarantor of last resort. Sadly, HMG was unwilling to do this, and so we have bid on the best terms we dared without jeopardising STC's financial position.

We have the opportunity still to adjust our bid, and I am writing to ask if you, Chancellor, would reconsider HMG's decision and offer to act as guarantor of last resort. The matter is urgent because adjudication is now underway.

I believe it is critical for STC's future submarine systems business that we are able to improve the credibility of our bid by extending the warranty to cover the full ten year period.

I would be pleased to discuss this with you at any time.

I am copying my letter to the Prime Minister, to the Secretary of State for Trade and to the Secretary of State for Industry.

Yours sincerely
Ken

PART 3 ends:-

Home Secretary to 875 N10 / 5/5

PART 4 begins:-

STC PIC to CN / Ex 25.5.83

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Q-60R2 Target for
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