



P.0664

PRIME MINISTER

Direct Broadcasting by Satellite:  
Cable Systems and Broadcasting Policy  
(E(82)13,14,16 & 18)

## BACKGROUND

The main issue for discussion is the proposal by the Home Secretary and the Secretary of State for Industry that the former should make the statement at Annex A of their memorandum E(82)13 announcing that the Government has decided, in principle, that there should be an early start with direct broadcasting by satellite (DBS) with the aim of having a service in operation in 1986.

2. The report on cable systems by the Information Technology Advisory Panel has been circulated for information under cover of E(82)16 which records your decision that the report should be published and that the issues raised by it should be examined by officials, under the Cabinet Office, prior to substantive consideration by Ministers later in the year. The report itself does not require discussion but it is relevant to the other paper by the Home Secretary and the Secretary of State for Industry, E(82)14, on cable systems and broadcasting policy. This proposes that three people should be appointed, with the terms of reference at Annex A of E(82)14, to report on the broadcasting policy issues involved in an expansion of cable systems. The aim would be for them to report by 1 October so that the official group could take their findings into account in preparing their main report to Ministers for submission by about November. This would enable the Government to announce by the end of the year its decisions on the future of cable systems. The provision of a modern cable network is relevant to the future of DBS, particularly since many people will prefer, or have, to receive DBS programmes by cable rather than from individual aerials.

3. As the CPRS point out in E(82)18 there is a strong need for early decisions on both DBS and cable systems if British manufacturers of space systems and of information technology services are to compete effectively in the growing markets at home and abroad.



## DIRECT BROADCASTING BY SATELLITE

4. The proposal is that a joint venture formed by British Aerospace, GEC-Marconi and British Telecom should provide a satellite system to be operational by 1986. This operational date is judged to be important if the consortium is to compete effectively against its overseas rivals. It will take about four years to develop and construct a satellite system and so, if the target date is to be met, a contract has to be signed this year between the joint venture and a broadcasting organisation. It is recommended that the contract should be with the BBC since, unlike IBA, they have already developed proposals for DBS and there is no legislative barrier to their involvement.

5. Ministers are not being invited to take definitive and final decisions on the system now. The proposal is that the BBC should enter into discussions with the joint venture with a view to constructing and agreeing detailed proposals in the hope that these could be put to Ministers for approval this summer. There are, nevertheless, a number of issues which the Committee will wish to look at now.

The broadcasting organisation to be involved

6. The Home Secretary recommends that the initial contract for the first two DBS channels should be between the BBC and joint venture with the possibility left open of the IBA and commercial companies coming in later to take up some of the three remaining channels. The Committee will wish to consider whether this is acceptable bearing in mind that the IBA and commercial companies are likely to be critical of a Government decision which appears to favour the BBC.

7. The case for giving the BBC the initial contract turns largely on the issue of timing. It is said to be essential for industrial reasons that the contract should be signed during 1982 so that a British satellite system can be operational by 1986. It is clearly desirable to make progress as quickly as possible. You will however wish to probe carefully whether the exact timing is so critical that it can justify ruling out the commercial television companies from the initial stage of DBS. If the signing of the contract could be delayed by six months or so until say June 1983, this would enable the IBA and commercial companies, who have only recently shown interest in taking part in the initial phase, to come forward with proposals, and might even, although the timetable would be tight,



give time for legislation to widen the IBA's powers. If they failed to come forward with satisfactory proposals within a given time limit, the Government would at least be on stronger ground in justifying the decision to give both the initial DBS channels to the BBC.

8. If it turns out that the timing is as critical as the Home Secretary and Secretary of State for Industry claim, one way of making it easier for commercial television to participate in the initial stage would be to abandon the concept of supervision by the IBA or some other new body set up for the purpose. The Home Secretary will no doubt argue strongly against this for reasons which are set out in para 24 of Annex B to E(82)13. However, even if the Government were to abandon the idea of supervision by the IBA or some other authority, there would still be problems in going ahead quickly with commercial participation in the initial stage of DBS. The Government would have to choose which commercial company or companies should be licensed, how the services were to be financed, and how programme standards could be maintained. These issues would take some time to resolve and it might be difficult to ensure that a contract could be signed quickly.

9. If the Committee wish to pursue further the idea of commercial participation in the initial stage, it will be necessary to consider whether the BBC and commercial television should each have one of the first two channels, or whether both should be allocated to commercial television. The advice in E(82)13 is that, because of the uncertainties over the market response to DBS services, it would be a mistake to have the BBC and a commercial company competing for business dependent on subscriptions from viewers. If a choice had to be made the Committee would need to satisfy itself that the positive arguments in favour of the BBC, which are listed in paragraph 28 of Annex B, could be set to one side in favour of the commercial companies.

10. One possible advantage of participation in the initial stage by commercial television companies might be that they would then bear the financial risks which would otherwise fall on the BBC and on the BBC licence (see paragraphs 12 to 14 below). It is, however, by no means certain that once the Government had licensed a commercial company for DBS it could then stand by if that company ran into financial difficulties because of a poor response to its services. Both

television rental companies and individual viewers would have invested heavily in DBS equipment and would be critical if the Government were to let this investment be wasted. This question of the financial risks, and any contingent liability on the Government, is one which would need to be explored further if the possibility of giving priority to commercial companies rather than to the BBC were to be pursued.

11. If the Committee conclude that the difficulties involved in participation by commercial television in the initial phase of DBS are, after all, decisive, they will wish to consider whether the Home Secretary goes far enough, in para 5 of his draft statement at Annex A, in encouraging eventual participation by commercial television. Could the statement say that it is the Government's positive intention that the balance of the five DBS television services should in due course be provided by commercial companies?

#### Financial risks to the BBC

12. If the BBC were to negotiate a contract for DBS with the joint venture, as the Home Secretary proposes, the Committee will need to consider what are the financial risks which the BBC might be taking on and what are the implications of this for the Government.

13. It seems that from 1986 the joint venture would be well placed: two-thirds of its income would come from leasing charges paid by the BBC and a further third from leasing for telecommunications purposes. Subject to the outcome of the negotiations, it appears that the BBC would enter into a seven year contract with the joint venture and pay them about £12 million a year for each channel. In addition they would have to buy or provide programme material at an annual cost which the Home Office guess to be at least £20 million a channel. One channel would be financed by subscription from viewers and from loans, possibly involving an increase in the BBC's borrowing limits, in the early years as the service builds up. The other channel would be financed from general licence fee revenue plus a special supplement from DBS viewers. If there were a good response all would be well and the BBC services generally could benefit from increased licence revenue. If there were a poor take-up - and the papers acknowledge that this might be so - the BBC could be faced with the need for increased borrowing and increased licence fees. Quite apart from any contractual commitment to the joint venture, they could not readily abandon the services to those viewers who had

bought equipment. The Government could be blamed for increases in the general licence fee and at worst could be asked to subsidise the system.

14. This may be too gloomy a view of the risks and it is not a reason for stopping the BBC from entering into negotiations with the joint venture. The Committee will wish, however, to consider the financial risks. They might invite the Home Secretary to tell the BBC that, while the Government does not intend to be a party to the negotiations on the contract, it will need to consider, when the definitive proposals are put forward, what account has been taken of the financial risks to the BBC. The Home Secretary might suggest that the BBC should explore the possibility that the joint venture might share some of the broadcasting risks - for example, the leasing charge could be related to some extent to take-up of the services. The possibility is mentioned in paragraph 35 of Annex B to E(82)13 of the corporation creating a subsidiary company and raising equity. This might be explored further: it could be a way of insulating viewers in general from the risk to the licence fee; it might not, in the last resort, mean that the BBC and the Government could stand back and let the service founder.

#### Government funding

15. The draft statement declares that "as regards the financing of DBS, the Government expects the capital cost of providing the space segment to found in the private sector"; this cost is thought to be in the order of £150-£170 million. This does not however mean that the possibility of some Government funding of DBS is ruled out. First, as explained in paragraph 34 of Annex B to E(82)13, it might be that the BBC could argue that they could secure a lower annual lease if they were able to contract with overseas firms rather than with the UK joint venture. It is suggested that in this circumstance the Department of Industry might need to consider the case for some Government assistance to justify the BBC in buying British. The Committee may feel that, while this possibility need not be ruled out, every effort should be made to ensure that it does not arise. The object of the exercise is to help British industry and to go ahead now with DBS only if it is based on a British satellite. If this is what British industry wants they should be willing to tailor their charges to competitive levels so that the project can get off the ground. Given that the case for going ahead now rests on industrial rather than broadcasting priorities, BBC ought to be in a strong negotiating position.



16. Secondly, while there is no intention that the Government should help to finance the capital costs of the satellite system, it may well be that UK manufacturers concerned with providing associated equipment will ask the Department of Industry for assistance, under standard Government schemes, for their development costs. On the assumption that this would be met from within the Department's public expenditure provision there is no objection in principle to this although the Committee should be aware of the possibility. Indeed, there might well be a positive case for the Department being willing to give such help in the interest of ensuring that United Kingdom electronics firms, rather than overseas competitors, get the business which is expected to result from these proposals.

#### CABLE SYSTEMS AND BROADCASTING POLICY

17. It is proposed that the Home Secretary should appoint three people to report on the broadcasting policy issues involved in an expansion of cable systems. They would do so in time for the outcome to be taken into account in the wider official inter-departmental examination, under the Cabinet Office's Information Technology Secretariat, into the technical, economic and industrial issues arising out of an expansion of the cable system. Since, at this stage, the proposals are primarily procedural they may not detain the Committee for too long. But there are two points which you will wish to consider.

18. First, you have endorsed the objective of completing the broadcasting inquiry by 1 October. This is important if the official group is to have time to take account of it in preparing their main report for Ministers' consideration towards the end of this year. The Home Secretary is likely to say that he will wish to give the members of the inquiry six months to complete their work. They have yet to be chosen and if they cannot be appointed by 1 April he might, therefore, want to give them a deadline later than 1 October. You will wish to press him to do his utmost to ensure that the work can be completed by 1 October.

19. Secondly, paragraph 1 of the terms of reference for the inquiry, at Annex A to E(82)14, states that the Government intends in principle to facilitate expansion of cable systems. The Committee will wish to consider whether this degree of commitment, in advance of the further analytical work which is now being put in hand, is acceptable or whether it would be better to have a more neutral wording. Any more detailed points on the terms of reference might be put to the Home Secretary in correspondence.



## HANDLING

20. You will wish to break the discussion into two, giving most of the time to DBS and dealing fairly quickly with the proposals for cable systems. On this basis, you will wish to ask the Home Secretary and the Secretary of State for Industry to speak first to their paper, E(82)13, on DBS. Mr Ibbs will wish to refer to the points in his memorandum E(82)18. The Chancellor of the Exchequer\* will want to comment on the financial implications, and in particular the possible risks to the BBC, and the Lord President of the Council and the Chief Whip on the proposed timing of the Parliamentary debate on DBS and the reception which Government supporters are likely to give to the proposals.

21. You will then wish to ask the Home Secretary to deal briefly with the paper on broadcasting policy in relation to cable systems, E(82)14.

## CONCLUSIONS

22. In relation to direct broadcasting by satellite, you will wish to reach conclusions on the following issues:

(i) Should the two initial channels be allocated to the BBC, as the Home Secretary proposes, or should more consideration be given to the possibility of allocating them to the IBA and commercial companies?

(paragraphs 6 to 11 above)

(ii) Are the financial risks to the BBC acceptable and what steps might be taken to limit them? (paragraphs 12 to 14 above)

(iii) Does the Committee have any points on possible public expenditure associated with DBS? (paragraphs 15 and 16 above).

(iv) When should the proposed statement be made and when might the Parliamentary debate be?

23. In relation to cable systems, you will wish to reach conclusions on the following issues:

\* or the Chief  
Secretary, Treasury



- (i) Should the inquiry go ahead, with a deadline of 1 October?  
(paragraph 18 above)
- (ii) Are the terms of reference acceptable? (paragraph 19 above)
- (iii) Can the terms of reference be announced as soon as the inquiry team is appointed?
- (iv) The Committee might take note of your decision that the Advisory Panel's report on cable systems will be published and that the Cabinet Office will chair an inter-departmental official group to consider the issues and to report before the end of the year.

24. If the Committee were unable to reach conclusions at this meeting on DBS, that should not be a reason for holding up the further work on cable systems which should now get ahead as quickly as possible.

*PLG*

P L GREGSON

LONDON

24 February 1982