

F. R.
PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

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

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

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

MEVA

MEA

12 February, 1986.

(B) cc BG

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Secretary of State for Trade and Industry

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11 February 1986

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

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

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

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

JF5AWQ

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BOARD OF TRADE
BICENTENARY



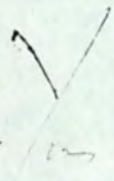
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competition in both television programmes and receiver manufacture and supply.

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

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

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


PAUL CHANNON

JF5AWQ

BROADCASTING

DBS...

PTS





CSB

M. A. A. A.

FCS/86/23

SECRETARY OF STATE FOR THE HOME DEPARTMENT

IBA Review

draft

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

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

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



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

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
31 January 1986



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020
A
CCBS (non-report)

QUEEN ANNE'S GATE LONDON SW1H 9AT

28 January 1986

Dear Paul,

CF
Await DTI comment, day,
of Monday. PL of on 4/2.
MBA 31/1

DIRECT BROADCASTING BY SATELLITE

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

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

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

The Rt Hon Paul Channon, M.P.

/over

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

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

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

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

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

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

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

*Yours
Douglas* P.S.

P.S.

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



The National Archives

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