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SUBJECT
c. Master Set

file



bc: Mr. Pascall

10 DOWNING STREET

From the Private Secretary

1 May 1984

Dear Hugh.

DIRECT BROADCASTING BY SATELLITE

The Prime Minister held a meeting today to discuss direct broadcasting by satellite. Present were: the Home Secretary, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade and Industry, the Chief Secretary, Mr. Jeffrey Sterling, Sir Robert Armstrong, Dr. Nicholson and Mr. Pascall.

The Home Secretary said he had inherited a policy decision which had been taken to encourage a British DBS project on both industrial and broadcasting grounds. It had become apparent that the BBC was over-committed to this project, a view which was shared by its new Chairman. The project was in danger of foundering. If it did, there was a possibility of legal action by the UNISAT satellite consortium against the BBC which the latter could not be sure of winning. The amount at stake was around £50 million. If the Government took no steps to revive the project it could be accused of bad faith, given its role in encouraging it at the start.

In conjunction with the Secretary of State for Trade and Industry and Mr Sterling, he had sought to establish a basis on which the project could go ahead. The essential features of the revised proposals were that initial provision of DBS would be through a joint venture between the BBC and independent television interests using UNISAT satellite to broadcast on three of the UK's available DBS channels. A change to the law would be required removing IBA's obligation to re-advertise the present "terrestrial" contracts at the end of 1989 and substituting a discretion to do so. The details were spelt out in Annex C attached to the joint minute circulated by the two Ministers on 30 March. He did, however, propose one modification. The life-span of the consortium should be set at 10 years (which was closer to the expected life of the satellite), while the fourth and fifth DBS channels would be opened after 3 years.

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He also proposed that there should be a significant place for non-ITCA companies in the consortium, with the 50% share not going to the BBC perhaps being split 30%:20% between ITCA companies and third parties depending on third party interest. Even these proposals could not guarantee that the project would go ahead but the Government would be seen to have done all that could reasonably be expected of it to encourage the project. Major commercial risks remained; this was far from being a cosy monopoly.

The Home Secretary said he wished to be in a position to announce the Government's position during the second reading of the Cable and Broadcasting Bill which is expected to take place during the week beginning 7 May. He would make it clear that giving IBA the option to re-advertise franchises would not give any company a guarantee on its future position; it would merely reduce the risks.

The Prime Minister said she had serious misgivings about these proposals. Since they were originally conceived, there had been a number of developments which were adverse for the project. It was now unlikely that the French and Germans would fall in behind the C-MAC standard which would cast doubt on whether set manufacturers would tool up for an adequate number of C-MAC sets. The advent of cable and the spread of video recorders had provided much more competition for the DBS market. There were doubts, too, about the wisdom of the UNISAT concept of a hybrid satellite for telecommunications as well as DBS.

She was most reluctant to give assurances to the consortium as this would entrench a monopoly and suppress the development of alternative forms of satellite broadcasting. The proposals did not provide adequate access for independent programme makers and there was every sign that the project would become a white elephant with the risk that the parties would, at some time in the future, turn again to Government for assistance.

The Chancellor of the Duchy of Lancaster shared these doubts. The current proposals were a long way from the original scheme which envisaged competing BBC and ITV DBS channels. Proposals to entrench monopoly and obstruct alternative developments were inconsistent with the Government's philosophy. He also shared doubts about the commercial viability of the project given the companies level of enthusiasm except in exchange for substantial concessions. Finally, he was extremely sceptical about the proposal to give IBA discretion to re-advertise franchises as the ITV companies were seeking this precisely because they knew they would be able to exert pressure on the IBA for the retention of their franchises, particularly if DBS were not thriving.

/ Summing

Summing up the discussion, the Prime Minister said the proposals put forward by the Home Secretary and the Secretary of State for Trade and Industry could be implemented provided a number of conditions were satisfied. It should be made very clear that no extra Government money would be made available; the Government would not underwrite any part of UNISAT's costs; no increase in the licence fee would be granted to the BBC to finance DBS; the Government would not meet the BBC's liabilities if the project collapsed; and expenditure on DBS by ITCA companies could not be offset against the levy. Third party involvement in the joint venture was essential. While the life of the consortium should be set at the economic life of the UNISAT satellite - believed to be around 10 years - the fourth and fifth channels should be activated after three years. It was for consideration whether the IBA should advertise after three years broadcasting by the joint venture or should advertise at a point which would allow broadcasting to begin after three years of the three-channel service. The aim should be to open access at the earliest possible date. In either case it should be a requirement on the IBA to advertise rather than a matter of discretion. For the terrestrial franchises, the IBA should be given discretion rather than an obligation to re-advertise in 1989 but it should be made very clear that this gave no guarantees to the existing companies. The Home Secretary should consider how the scope of the monopoly could be minimised and how the freest possible operation of other forms of satellite broadcasting which did not use the five DBS channels (e.g. transmission to cable heads using telecommunications frequencies) could be encouraged. The greatest possible access should be provided for material from independent programme makers. The possibility of reducing both the BBC's financial commitment and its degree of editorial control should also be considered.

The Prime Minister would be grateful if the Home Secretary could let her see a draft of next week's statement in advance.

I am sending a copy of this letter to Alex Galloway (Chancellor of the Duchy of Lancaster's Office), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office, HM Treasury), Richard Hatfield (Cabinet Office), Mr. Sterling (Special Adviser to the Secretary of State for Trade and Industry) and Dr. Nicholson (Cabinet Office).

Yours sincerely
Andrew Turnbull

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Hugh Taylor, Esq.,
Home Office.

DPS

