



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

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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.

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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

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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

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

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ROBIN B NICHOLSON

cc: Mr Gregson
Mr Brearley

16 December 1983

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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

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