

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
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