



Prime Minister

DIRECT BROADCASTING BY SATELLITE (DBS): A JOINT PROJECT

.... In the attached memorandum the Secretary of State for Trade and Industry and I set out our joint conclusions on a collaborative DBS project, involving the BBC, IBA, ITV and other independent companies, as the best means of carrying forward a British DBS project. Subject to any comments that our colleagues may wish to offer (which it would be helpful to receive urgently, and if possible within the next week), I propose to announce the general lines of our policy either in the Second Reading Debate on the Cable and Broadcasting Bill or on some earlier occasion if that proves appropriate and feasible, and to put in hand the drafting of the required amendments to the Bill.

Norman Tebbit and I must make it clear that we cannot yet be sure that a collaborative project on the lines described in our memorandum would definitely go ahead if we made the necessary adjustments to broadcasting policy. It would certainly not go forward unless those adjustments are made. But there remain other hazards to be overcome. In particular, it will be difficult to secure agreement between the broadcasters and the UNISAT consortium in time to preserve the feasibility of a 1987 start date. Moreover, although good progress has been made, the broadcasters have still to be fully satisfied that the manufacturers are capable of providing receivers in sufficient quantities and at a low enough price to justify a 1987 start. But we believe that if we agree to play our part, and if we continue to make Jeffrey Sterling's good offices available, there is a reasonable prospect that the collaborative project will proceed.

Finally, colleagues should be aware that News International (the Rupert Murdoch company) have come forward very recently with a scheme of their own for providing satellite television. It is by no means an alternative to the DBS proposal before us. We have already resolved in favour of a national

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service using DBS frequencies within the framework of public service broadcasting and under the aegis of the existing broadcasting authorities. A scheme of the kind envisaged by News International, though it would not constitute a DBS service, could damage its prospects through the range of channels it would offer and the extent to which it might attract an audience through individual reception as well as cable diffusion. It is, in any case, not entirely clear whether the proposal is genuine or is mainly intended to undermine the collaborative project. The proposal seems on first examination to be impracticable for a number of technical and policy reasons. We are arranging for a more detailed examination to be carried out, however, to ensure that we are well prepared to deal with any continuing campaign that may be mounted after we have declared our backing for the collaborative project.

L.B.

30 March 1984

Copies of this minute are being sent to all members of E(A) and H Committees, and to Sir Robert Armstrong.

DIRECT BROADCASTING BY SATELLITE (DBS): A JOINT PROJECT

JOINT MEMORANDUM BY THE HOME SECRETARY AND SECRETARY OF STATE FOR TRADE AND INDUSTRY

In this memorandum we report to our colleagues the position reached in discussions with and between the BBC, IBA and Independent Television Companies Association (ITCA: the ITV contractors' association) regarding a possible collaborative DBS project, and invite their agreement to Government endorsement of it and to the inclusion in the Cable and Broadcasting Bill of the legislative provisions needed.

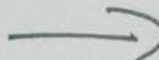
2. Our starting point is that a British DBS project is desirable and worth sustaining, in the interest of our space and electronics industries and as a development of a new means of broadcasting of significant long-term potential. The Government's original plan (see Annex A, which sets out the recent history) was to model our DBS structure on those for 'terrestrial' broadcasting: two of the UK's five DBS channels were assigned to the BBC, and (probably) two more would be assigned to the IBA for use under contractual arrangements of broadly the ITV type. But it has become increasingly clear that the initial phase of DBS will be a high-risk operation. Those closely concerned in the BBC and ITCA are persuaded that at this stage there is a real danger that competing channels would prevent any DBS service from thriving. It is now clear that the BBC would not go ahead with DBS except on the basis of sharing the risk in a collaborative project. If they withdrew, it would not be the end of DBS - there would still be the possibility of IBA contractor services; but it would mean a damaging delay, probably a fatal blow to Unisat (see Annex A) and a serious setback to our space and electronics industries.

3. Against this background we asked Mr Jeffrey Sterling, Special Adviser to the Secretary of State for Trade and Industry, to explore what were the best prospects for maintaining a British DBS project. He has held discussions with the broadcasters, the TV set manufacturers, and Unisat. He has found a good deal of common resolve among them and a willingness to combine their efforts to produce what is likely to be the first operational

DBS service with its own programming, at least in Europe. Annex B outlines the industrial advantages to the UK if the service can be launched in 1987. Mr Sterling has formed the judgment that this is a practical proposition, and indeed that combining the talents and experience of the existing companies is the only way to establish a British service in this timescale.

4. In these circumstances we are persuaded that the best hope of securing a good quality British DBS service in the late 1980's lies in a collaborative venture involving the BBC, IBA, ITCA and other independent companies. Annex C gives the Outline of the sort of project that has emerged from the discussions led by Mr Sterling and direct Ministerial discussion with the BBC, IBA and ITCA. In our view it is a project which the Government could support and commend to Parliament and public opinion. It involves some departure from earlier thinking, and acceptance of some features which we should not wish to see embodied in DBS arrangements in an ideal world, or for the longer term. Nevertheless they are in our view an acceptable price to pay for getting DBS going.

5. Particular aspects of the scheme which we think it right to draw to the attention of our colleagues are the following:

(i) The project would postpone for some years the prospect of competition between UK DBS services.  Part II of the Cable and Broadcasting Bill, which confers on the IBA powers to franchise DBS services which would compete with those of the BBC, would be enacted but placed in cold storage. The service however will be competing with other cable-borne services and with video. And all the evidence suggests that in early years the joint project, so far from bring a prosperous oligopoly, will have to work hard to win audiences and revenues. While therefore it needs to be made clear that the joint project is to have a limited life, with a more competitive environment ahead, we believe the approach proposed for the initial period is justified.

(ii) Some will see it as a defect of the project that the lion's share of the action goes to the BBC and ITV

companies. They are, however, the organisations with relevant expertise. On any analysis, the BBC would be one DBS broadcaster, and the ITV companies would be strong contenders for contracts granted by the IBA under the powers in Part II of the Bill. However we have judged it important, and have insisted in discussions with the BBC and ITCA, that a place should be left open in the joint project for non-ITCA companies (see Outline, para 3). If these proposals are approved the Home Secretary will urgently seek the IBA's assistance in inviting applications from non-ITCA interests.

- (iii) Advertisers while welcoming an additional outlet for TV advertising will be concerned that it has not been taken out of the hands of the ITV grouping, of whose charges and practices they are critical. However, the ITCA companies will have only a share in the joint company. Advertising will play little part in the early stages of the project while audiences are small, but could contribute to its health in its later stages. (A subscription will be the method of financing in the first phase.)
- (iv) The need to relieve the ITV companies of the obligation to compete for new contracts in 1989 (Outline, para 12) is unwelcome. But we are persuaded that, without some relief, they would and could not participate in the joint project. The relief that does least violence to the pattern of IBA competitive franchising is to make re-advertisement of contracts discretionary in the IBA, instead of mandatory, for 1989 only, thus preserving the general structure and leaving the IBA with control over companies whose performance falls below standard.
- (v) Late-stage additions to the Cable and Broadcasting Bill will be needed to give effect to (iv) above and to create the necessary joint broadcasting body (Outline, para 6). Our aim is to create as unobtrusive a body as possible; but the legislative provision is bound to be substantial.

These changes ought if at all possible to be introduced at Committee Stage in the Commons.

Even with the above conditions satisfied, there cannot be certainty that the service will get under way. The BBC and ITCA have expressed their general commitment to the project; and the IBA, despite earlier misgivings have said that they are willing to co-operate. But ITCA has made it plain that the ITV companies will need some months before each can make a formal commitment (the same would be true of non-ITCA participants), and there could be some drawing back before then. Unisat are willing to do business with the joint project; but contracts are still some way from being signed. Cost and availability of sets (Outline, paras 9 and 10) could still hamper take-up of the service. And the costs confronting the joint project are high (Outline, para 8).

6. These risks and uncertainties are not primarily the concern of Government. Our role - which we commend to our colleagues - is to give the project a fair wind by creating the opportunity in policy and legislative terms, on the lines proposed above. We cannot be sure that, even with that support, the project will go ahead. However it is clear that it cannot go ahead unless the Government plays its part.

7. An early decision is needed because the Government's intentions regarding changes in the law need to be signalled when the Cable and Broadcasting Bill receives its Commons Second Reading - which is likely to be shortly before or shortly after Easter.

8. We therefore invite our colleagues -

- (1) to agree to the project going ahead on the basis set out above; we would expect to continue to use Mr Sterling's good offices to promote it;
- (2) to authorise the Home Secretary, on Second Reading of the Bill, to announce the Government's general approach and specific intention to add to the Bill provisions for a joint DBS broadcasting body and modifications of the ITV contract advertisement procedures.



30 Nov 1944



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DBS: THE BACKGROUND

The then Home Secretary announced in March 1982 the Government's decision, primarily for industrial reasons (though broadcasting considerations were also a consideration), to make a start with direct broadcasting by satellite (DBS): The BBC would provide a 2-channel service and a satellite system would be provided by Unisat, a consortium of British Aerospace, GEC-Marconi and BT whose formation for the purpose the DOI had encouraged. The object was 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; subsequently a policy was agreed 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 is now before Parliament.

2. From March 1982 Unisat worked on the satellite system, and the BBC on programming and other aspects of the service, and the two sides negotiated on the details of contracts. These negotiations proved difficult and protracted; Heads of Agreement were signed in March 1983, but contracts have not yet been signed. The major problem 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. The lack of a common European transmission standard for DBS has been another factor.

3. In the Summer of 1983 the present Home Secretary and the new Chairman of the BBC, Mr Stuart Young, agreed that it would be desirable for the BBC to seek a commercial partner with whom to share the financial risks. During the Autumn the BBC engaged in confidential discussions to this end with Thorn-EMI, who finally concluded that the proposition in the form put to them by the BBC did not offer a sufficiently attractive commercial prospect.

4. Despite that disappointment it remained the object of the BBC to stay in DBS, using the Unisat project, if possible. They therefore opened discussions with the IBA and, subsequently, the Independent Television Companies Association (association of the ITV companies) to see whether a basis existed for a collaborative project. Meanwhile Unisat expressed growing concern that while their financial commitment to the project stood at around £50m and continued to grow, they were still without a contracted customer for the project.

5. In this situation Ministers asked Mr Jeffrey Sterling, Special Adviser to the Secretary of State for Trade and Industry, to use his good offices to explore with all parties concerned whether there were ways of keeping the project in being. Unisat were dissuaded from immediately terminating the project, though they have subsequently announced its suspension, on a basis that would make its re-activation possible provided the period of suspension is not prolonged. Against this background the

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broadcasting interests have discussed, under the aegis
of Mr Sterling, a possible joint venture.

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INDUSTRIAL BENEFIT OF DBS SERVICE STARTING IN 1987

This note examines the potential benefits to UK industry which would flow from a 1987 start to DBS. These are in four main areas: satellites, consumer electronics, film and TV programme contractors, and cable.

Satellites and Ground Segment

2. The UK has established itself as the leader in Europe in communication satellites, mainly through British Aerospace (BAe) and GEC-Marconi, who manufacture satellites, and companies such as Logica which have developed a corresponding expertise in software. The industry estimates potential sales of £2,900m (1983 prices) in the period to the year 2000 providing it can now through investment and higher throughput raise its productive efficiency to that of the US majors. Competition for satellites for international agencies (Intelsat, Inmarsat and European Space Agency) depends on international co-operation and both BAe and Marconi have strong relationships with US and European partners, and in some cases they both lead for their partners. However, to establish their standing for overseas sales they will also need domestic success in projects such as defence communications, where they are providing two Skynet IV satellites, and in DBS. The DBS satellite bid represents about £120m of business in the short term for BAe and Marconi, with substantial overseas sales potential for both companies, either in partnership in Unisat or independently.

3. It would be possible for DBS to be provided by satellites bought from the US, which might be marginally cheaper since their R&D costs will have been written off against NASA or Department of Defence contracts. Suggestions that such satellites could have substantial UK content through sub-contracting fail to take account of the fact that unless BAe and Marconi can establish their lead potential on contracts for satellites they will simply become dependent on the goodwill of US prime contractors for their international sales. Furthermore the satellite cost of Unisat represents only a small part of the total monthly cost of the DBS service to the subscriber, so a marginal reduction in satellite cost is not likely to be significant in the success of DBS.

4. The low-power satellite telecommunication capacity on the Unisats is also important for developing a UK capability in small-dish terminals for business services, for TV distribution to cable etc.

Consumer Electronics

5. British manufacturers of colour television receiving equipment see a notable opportunity in DBS which involves a technology in which they have a well-established and useful expertise. They have welcomed the Government's decision to endorse the C-MAC/packet sound transmission system recommended by the European Broadcasting Union (EBU) not only because it is technically advanced but because it has considerable development potential with profitable implications not only in Europe but further afield.

6. The British colour TV set industry has been able to survive the influx of cheap sets from Japan and other Far Eastern suppliers by producing better quality control and new and sophisticated technology (eg teletext and viewdata), reducing the complexity of chassis design and the number of components to derive more benefit from automatic insertion techniques, establishing voluntary restrictive agreements with manufacturers from countries such as Japan, Taiwan, Singapore and Korea, relying on the protection afforded by the PAL patents and preserving the rental market which accounts for 50% of all domestic colour TV sets.

7. Further reductions in production costs are increasingly difficult to achieve, voluntary restrictive agreements are increasingly difficult to maintain, the PAL patents will expire over the next two or three years and reliance on the rental trade is less certain as higher quality reduces the incidence of receiver breakdowns. Manufacturers therefore urgently need the stimulus of the new technology afforded by the MAC system (developed by the IBA) in order to establish an early lead over their competitors in the production of the next generation of receivers.

8. UK set and integrated circuit manufacturers were disappointed by the abandonment of the BBC's plans to begin a DBS service in September 1986. Now that HMG has reaffirmed its commitment to the C-MAC/packet sound transmission system, they are ready to begin work on the detailed design of the necessary integrated circuits. Work is already in hand with the broadcasters to make crucial decisions on the encryption method to be employed, and it is proposed to introduce this without waiting for the agreement of the

EBU though it is hoped that they will follow suit. The manufacturers fear that delay until 1988 will enable European and Far Eastern competition to catch up on the development of C-MAC receiving equipment and put at risk the technological lead which they hope to establish as the PAL patents expire. If the DBS programme slips a further year they can be expected to resort to the familiar temporary expedient of relying on protectionist measures such as tariffs, quotas and restraint agreements to counter the threat from the Far East.

Film and TV Programme Contractors

9. DBS will provide a need for programme material costing £100m pa for three new channels, including a new film channel. This will be both a challenge and an opportunity for the programme makers, and in particular the UK film industry (although the economics of DBS are such that feature films are unlikely to be made for that medium alone.) The reputation of the UK broadcasters and film makers stands high at present and DBS will provide an important market not only for the existing TV programme companies but also for the newer film companies, Goldcrest, Virgin etc, whose successes in films such as Chariots of Fire and Gandhi have established their international reputation. Again this is both a domestic as well as export market.

Cable

10. DBS, even though it has the advantage of providing national reception for its services from day one, is basically a one-way delivery system for programmes (entertainment or otherwise) and as such is in competition with existing terrestrial TV transmissions,

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video tape recorders and cable systems. Unlike cable it lacks
any capability for interactive services (home shopping, office
working, telebanking etc) but it can achieve universal coverage
and avoid the interference problems and lack of spectrum
availability inherent in terrestrial programmes. It will be both
complementary to and in competition with cable - DBS can ensure the
immediate reception of new programmes in rural areas where the
spread of cable will necessarily be slow but it will compete with
cable as a delivery system in urban areas. The requirement that
new broad band cable systems must carry DBS programmes will offer
the prospect of indirect subscribers in cabled areas who will benefit
from DBS without incurring the costs of a dish receiver and a
conversion set. It is expected to be ten years before cable systems
pass even 50% of urban homes.

Department of Trade and Industry
March 1984

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OUTLINE OF POSSIBLE JOINT DBS PROJECT

The object of a joint DBS project would be to exploit space technology for broadcasting, using the Unisat project already being developed for the BBC, and to bring together the resources and skills of the BBC and (in particular) other broadcasters, so that the risk inherent in the early stages of DBS was spread and the danger of competing services ruining one another averted.

2. The project would use the Unisat system (on terms that would have to be re-negotiated to fit the changed circumstances). Its lifespan would equate with the assured life of the initial satellite system - i.e. 7 years from the start of DBS programmes - with the possibility of limited extension by Order. Such a period is likely to be needed to bring the project to a profitable level.

3. Participation in the project would be by way of a joint company. The participants would be: the BBC; those ITCA companies who wished to participate; and other participants for whose selection the Home Secretary would look primarily to the IBA for help; the Home Secretary would have the formal role (under powers to be taken in the Bill) of designating the composition of the company. The non-ITCA participants might make a purely financial contribution to the venture; or they might bring manufacturing and retailing skills; or they might add to the production capacity of the BBC and ITCA. The BBC would have to be given some say in who participated as their partners.

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4. The BBC's share of the joint company would be 50 per cent. The other 50 per cent would be shared between ITCA (most if not all of whose members are reported to be keen to take part) and other participants (assuming that suitable applicants came forward).

5. The joint company's function would be to provide the programmes for the service, from the resources of the participants or by purchase, commissioning etc. There would be three channels. One of these would be a premium film channel. The other two would be programmed (through the joint company) either one by the BBC and the other by the independent side, or with mixed programming from those (and possibly other) sources. The company would be wholly responsible for the provision of the satellite and all related costs.

6. In order to assimilate the joint project into the normal framework of broadcasting accountability, there would need to be a joint BBC/IBA body responsible for providing and supervising the joint company's output. The joint body would be composed equally of BBC Governors and IBA Members, with a rotating chairmanship. Legislation (in the Cable Bill) would be needed to create this joint body and to confer on it the necessary powers and duties. The object would be to create the minimum of machinery. The joint body's resources would come from the joint programme company.

7. The joint service would be funded principally by a single subscription, likely to be of the order of £8-10 per month.

Arrangements for collection would be the responsibility of the joint company (and, as regards reception via cable, the amount would require negotiation with cable operators). Additionally, the regulatory authority would be empowered to permit advertising if and when it considered this justified.

8. Costs incurred by the joint company would be of two main kinds: rental payments for the satellite system provided by Unisat; and programme costs. Satellite rental costs would be of the order of £200m over a 7-year period, representing an annual rental of about £27m for a 3-channel service. Programme costs are more adjustable, and to some extent would be related to the number of viewers (because of the way in which film rights are paid for): they might be of the order of £50m pa initially, rising to over £100m pa. At this level of cost there would be a substantial negative cash flow in the early years - reaching a cumulative total after 5 years of £170m in the best case and £290m in the worst. A 'break-even' point would not be reached until there were 2m subscribers. From that point the financial health of the project should show a steady improvement. There would be no direct Government assistance. The BBC's expenditure, until it came to be matched by receipts, would be financed by borrowing on the open market, within the extended borrowing powers (up to £150m, or £225m with the Home Secretary's approval) conferred on it for the purpose last year. There would not be recourse to licence fee revenue except in a situation where the project had failed, and the BBC had no other ultimate source of funds to meet its liabilities.

9. The DBS subscriber would also have to equip himself with receiving equipment (for individual reception; the position of the cable subscriber would be different). Likely set costs have been the subject of prolonged discussion which cannot at this stage be conclusive: the best current estimate is that the cost to the individual subscriber of the equipment needed (including installation) would be around £420, representing a monthly rental of about £13 including VAT, but excluding the cost of installation.

10. The aim is to start the service in Autumn 1987 (not 1986 as earlier intended). Provided early and firm decisions are now reached by the BBC and other participants, it is thought that the Unisat system can be available by then. The availability of receiving equipment is also crucial: the manufacturers are confident that, provided early decisions are reached on outstanding matters of specification including encryption (where we are in the hands of the broadcasters), they can have an adequate supply of sets available in time for an Autumn 1987 launch.

11. Because of the high-risk character of the project, and the timescale before the break-even point, the BBC and ITCA attach importance to there being no competition for audiences and revenue from any other UK DBS service, on the two remaining frequencies internationally allocated to the UK (the prospect of competition from an Irish service, readily receivable in most parts of this country, can of course not be ruled out). The broadcasters' view is that that protection ought to last for the full proposed

life of the project (see (2) above). There may well be criticism from other would-be DBS broadcasters, and from elsewhere, of an arrangement that confines DBS to the joint project for such a substantial period. As a partial answer to that criticism, while guaranteeing protection to the project in its early years, the Government would make clear its readiness to consider bringing Part II of the Cable and Broadcasting Bill into effect during the life of the joint project, and in the light of the project's progress towards profitability, but not until there had been 5 years of joint project programming. This would mean that the IBA would then be able to advertise a contract or contracts for one or both the remaining DBS channels. The time needed for a contractor to be selected and to make arrangements for a satellite system could mean that no competing service was actually in operation until the life of the joint project had expired or was close to expiry.

12. The present "terrestrial" contracts of the ITV companies last for 8 years from the beginning of 1982; expiring at the end of 1989. The IBA is required by section 19(4) of the Broadcasting Act to re-advertise the contracts, a process that begins many months before the expiry date and involves companies seeking a renewal of their contract in detailed preparation of their case. The ITV companies have strongly represented that without some relief from the need to prepare a case for renewal, and the risk of being without a terrestrial contract after 1989, they and their shareholders could not commit themselves to the scale and risk of investment which the

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DBS project would require. The relief sought could be given in one of a number of ways. The preference of Ministers is to revert, for the 1989 contract renewal proceed only, to the pre-1980 procedure, under which the IBA if satisfied about a company's performance may renew its contract without re-advertisement, though it retains a discretion to do so. Although this procedure would not wholly remove the companies' uncertainty, they say that it would give them sufficient confidence and reassurance. The IBA would still have to impose changes on the structure of the companies, as it has now, without readvertising the contracts. An amendment to the present law will be required in the current Bill; it would take effect only if the joint project went ahead.

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DTI ✓	DES	

From the Private Secretary

5 April 1984

Direct Broadcasting by Satellite

30 March The Prime Minister has been giving thought to the Home Secretary's minute of ~~13 January~~ about DBS, on which the Chancellor of the Duchy has now commented in his minute of 4 April.

The Prime Minister believes that it would be helpful to discuss the issues raised by the Home Secretary at a meeting with those Ministers most closely involved. We shall accordingly be making arrangements for a meeting as soon as diaries permit, with the Home Secretary, the Secretary of State for Trade and Industry, the Chancellor of the Duchy and the Chief Secretary.

I am sending copies of this letter to their Private Secretaries, and also for information to the Private Secretaries to the remaining members of E(A) and H Committees, and to Richard Hatfield (Cabinet Office).

(David Barclay)

Michael Gillespie Esq
Home Office

RW