

C.D.P.

MR FLESHER30 March 1984DBS

The development of DBS so far is a sorry story. Much as we applaud Jeffrey Sterling's efforts, the Government should never have become involved as deeply as it has.

We are now in danger of becoming locked into an expensive compromise which mainly benefits the existing players in the game. There is probably some justification in the general criticism that our concentration on the BBC, IBA, ITCA and particularly Unisat has excluded alternative options.

In these circumstances, we must resist granting concessions which may not be essential for a successful DBS project and which compromise our wish to see commercially based satellite broadcasting, independent of Government.

Extension of Franchises for the ITV Companies

We do not see the need to make any concessions in this area.

If the DBS joint venture is a free-standing entity, there should be no direct connection with terrestrial franchises. The equity commitment to DBS could be transferred at its market price.

If this does present an unacceptable degree of risk for the ITCA companies, we suggest that any new competitor for a terrestrial franchise should be obliged to accept the DBS commitment. This would ensure continuity of the project through 1989. As perhaps only one or two franchises would be changed anyway, the amount of upheaval in the DBS project would be minimal.

To go further and give the ITCA companies greater security for their terrestrial franchises would be to accept a greater Government commitment to DBS than our general policy warrants.

Third Party Involvement

We welcome the intention to allow non-ITCA private sector companies to participate in the joint venture. This is an important step in ensuring that third parties are given some opportunity to become involved in DBS at an early stage.

It will also be important to ensure that opportunities are open to independent programme makers to supply programmes to the joint venture.

Alternative Options

We are concerned whether alternative satellite options have been fully considered. There has been an understandable attempt to find a satisfactory solution involving Unisat. However, in view of the risks associated with this venture, commercial assessments must be overriding.

As the Budget proposals appear likely to increase the costs of Unisat significantly, we wish to see an assessment of alternative satellite options and financing packages such as Britsat.

We also require an analysis of the international implications and potential overseas competition particularly in view of the references to News International and to Irish proposals. We expect that there will be significant competition from alternative sources in Europe before 1987.

Finance

The proposals confirm that there will be no Government financial commitment to the project.

We understand that the BBC accept that there would not be recourse to the licence fee except in the event of a collapse of the project. In such a case, the Government would not meet the liabilities of the project.

We need to clarify that this also means that DBS expenditure would not be offset against the ITV levy. This would amount to indirect financing of the project and a transfer of risk to the Government.

Competition

Provided that satisfactory conclusions are reached on the above points, we consider that there could be a case for postponing competition between UK DBS services in the early years of the joint project.

However, this point should also be assessed in the context of the prospects for international DBS services received in the UK.

Conclusions

The DBS project raises difficult issues for our policies on satellite broadcasting and competition generally. In view of the reservations outlined above, we recommend that the Prime Minister holds a meeting to review the whole subject.

DLP.

DAVID PASCALL

PRIME MINISTER

Attached is a memorandum by the Home Secretary setting out his proposals (agreed with Mr. Tebbit) for the future of Direct Broadcasting by Satellite. Also attached is a minute by Policy Unit commenting on the Home Secretary's proposals. Policy Unit recommend that you should hold a meeting to review progress with DBS. We do not, however, think you need go this far, at least at this stage.

The Home Secretary's minute seeks comments from colleagues; do you agree he should be asked to take into account the Policy Unit's comments in this exercise?

TIM FLESHER

30 March, 1984