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Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

30 March 1984

CONFIDENTIAL

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

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Dear David,

MR J G ANDERSON: DIRECT BROADCASTING BY SATELLITE IN THE UK

In agreement with the Home Office I am responding to your request of 13 March to Michael Gillespie for advice on Mr Anderson of Britsat's approach of 12 March to the Prime Minister. Officials in this Department recently had a presentation by Mr Anderson of the Britsat proposals.

2 Mr Anderson represents US satellite manufacturing interests. He seeks to denigrate and misrepresent the proposals of the United Satellites Ltd (USL) consortium of GEC-Marconi, British Aerospace and British Telecom which the BBC had selected to provide a DBS satellite. In fact the leasing cost of satellites in DBS were not a major factor in the BBC's conclusion at the end of last year that they should have discussions with independent television on the feasibility of an initial joint service - the programme and TV set costs are much more substantial. Nor have any problems in the delivery of the Unisats been a factor in the BBC's decision to delay: USL had agreed penalty clauses if they did not have the satellites ready for the BBC's use by September 1986. Mr Anderson's attack on the technical abilities of BAe and GEC-Marconi is also unjustified. Through BAe and Marconi the UK leads in Europe in telecommunications satellites and the major technological step in the Unisat pay-load, the high-powered DBS channels, is to Marconi's design and manufacture. Much else could equally be rebutted.

3 Ministers' position on the procurement of the satellite system has been that this had to be privately funded (as the USL proposal) and that they wished to encourage this procurement to be from the UK space industry. GEC and

/British ...



British Aerospace representing all the UK's satellite capability came together for this purpose with British Telecom and the resulting consortium was prepared with a view also to tackling overseas markets. In these circumstances Ministers took the view that they could validly encourage discussions between the BBC and the USL consortium but not more. The procurement decision had in the end to be for the BBC and in fact with the advice of leading US satellite consultants on the price and performance they should demand, the Corporation negotiated heads of agreement which both sides found acceptable. Obviously on industrial policy grounds a solution which results in the UK industry priming and designing the satellites is capable of leading to overseas sales in a way which undertaking some tasks to the specification of a US prime, as proposed by Britsat, is not.

4 Contrary to what Mr Anderson says, and obviously providing the present delays are not too long, USL are ready to pick up again at short notice on the manufacture of the satellites and they can also offer a lower per channel price for the three-channel service now being discussed between the BBC and independent television. The alternative would not however be to accept unilateral negotiations with Anderson and his American backers but to encourage an open tender action in which British firms could compete either alone or in collaboration with overseas partners of their choice.

5 I suggest accordingly a neutral reply on the lines of the attached draft. I am copying this letter to Michael Gillespie at the Home Office.

Yours ever,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

Encl

CONFIDENTIAL

Mr J G Anderson
Managing Director
Britsat
Airwork House
35 Piccadilly
Suites 101-110
LONDON
W1V 9PB

The Prime Minister has asked me to reply to your letter of 12 March about your proposals for a DBS satellite system as an alternative to the Unisat proposal.

As you know the broadcasting authorities are discussing their proposals for a DBS service and are consulting the Government about the implications of their proposals for the legislation covering broadcasting policy. The Prime Minister has noted the situation reached by Britsat and she understands that you have informed the BBC and IBA.

David Barclay
PS/Prime Minister

cc PS/Home Secretary
PS/Secretary of State for
Trade and Industry

Broadway = 685 PT 4

30 MAR 1984





10 DOWNING STREET -

From the Private Secretary

30 March 1984

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David Barclay

J. G. Anderson, Esq.

J.G. ANDERSON

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10 DOWNING STREET

From the Private Secretary

13 March 1984

I enclose a copy of correspondence the Prime Minister has received from Mr. J.G. Anderson, Managing Director of Britsat, Airwork House, 35 Piccadilly, London.

I should be glad if you could let me have a suitable draft Private Secretary reply to send to Mr. Anderson, to reach me by 27 March. I am copying this letter and enclosure to Andrew Lansley (Department of Trade and Industry).

(David Barclay)

Michael Gillespie, Esq.,
Home Office

A handwritten signature, likely of David Barclay, consisting of stylized initials.

COMMERCIAL IN CONFIDENCE

Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
London S W 1

12 March 1984

We understand that the Press have been advised over recent weeks that you are taking a close interest in the decisions affecting Britain's path towards Direct Broadcasting by Satellite.

We wrote to you on 29 September last to advise you that planning was under way for a substitute project to Unisat. A copy of that letter is enclosed for reference.

Unisat as a project has now effectively failed. Engineering teams are being disbanded, sub-contractors stood down, and we have just learned that the Managing Director of Unisat is likely to be assigned to another project. The project was technically unsound, was being farmed out to subcontractors all over the world, and was uneconomic for DBS channel users such as the BBC or ITCA members. Worse, as a national 'prestige' project it contained huge inherent losses, some one hundred million pounds on the original 1981 cost base and probably two hundred million pounds if it could ever be re-started, with obvious implications for the Exchequer.

In spite of official protestations to the contrary, from all our soundings it is clear that strenuous efforts are still being made to re-float Unisat, which was put together by the DTI in the first instance and then foisted on the BBC in 1982.

There are a series of technical, commercial and financial reasons why Unisat could not fly before 1988/89, if ever. In spite of these problems, we are concerned that (as with Mercury) ranks will close around Unisat to defend and promote it against any competition, whatever the commercial realities of that project.

We have taken a completely different path to Unisat, based on a recognition that the technology of high-power DBS is beyond the UK's capability - witness the sub-contracting of all Unisat's transponder work to North America. We have instead put the

market requirements first and foremost. We now have complete plans for a much larger multi-channel DBS system, able to handle all the ten DBS channels allocated to the UK and Eire and offering very sharp price advantages to channel users. The plans are based on fixed-price contractual offers for all aspects of system procurement, together with detailed arrangements for project financing in the City of London and for operation of the system through to 1997. We could still just manage a 1986 launch, and could manage 1987 comfortably.

As we intended when we wrote to you last September, our plans offer :

- deliberate avoidance of technical and schedule risk for the broadcasters and for manufacturers of customer reception equipment
- economies of scale to be shared with the broadcasters
- a lower-cost and sharply lower-risk path to DBS
- private-sector financing, letting the City get into the financing of commercial space projects for the first time
- British ownership and management of the satellite operating company
- no internal losses and hence no loss of tax revenue - instead the prospect of profitable operations and sizeable payments of Corporation Tax
- technology transfer, and a higher proportion of UK content than applied with Unisat
- a strong chance of collaboration with Eire on DBS (RTE have welcomed our plans) and further prospects for a follow-through Anglo-Irish telecoms system
- the first commercial DBS system in Europe

There have been two other private-sector satellite initiatives in the last 18 months. The first, involving Morgan Grenfell, was sidetracked by the DTI into fruitless negotiations with Mercury. At no stage were Morgan Grenfell and the others involved with the project even able to present the project proposals to DTI Ministers. That project has lapsed - the markets, technology and finance were available, but licensing difficulties (and Unisat) stood in the way. The Americans are now far ahead on plans for similar systems, and it is doubtful whether the UK could ever catch up. The second project, involving re-deployment of an existing satellite system to provide extremely low-cost communications for much of Africa, failed to find favour against existing DTI plans to fund the aerospace industry to join a French project. The French project has since lapsed, but the UK has missed its window to promote a more cost-effective system.

There are major issues of principle involved in the DBS area :

- do the Government or the broadcasters truly believe that any UK oligopoly can be exercised over customer choice of DBS services, when the technology by definition transcends nation-state boundaries ? Other European nations (including Eire) will be able to beam DBS to the UK long before Unisat could ever fly
- is space policy (after so many years of state subsidy) still to be largely dictated by the narrow interests of the aerospace companies rather than by the interests of the broadcasters and the potential mass consumer market?
- in satellite communications, as in other areas of telecommunications, does the Government believe that Whitehall-inspired schemes should always take precedence over entrepreneurial and risk-capital initiatives?
- does the Government want Britain in space before the next election or not - with all that this could mean for employment in manufacturing, installing and servicing customer reception equipment all over the country?

As a measure of the technical soundness of our project, we have available insurance for the life of the system more than twice as long as for any other system in the world. Although we have been unable to negotiate directly with the BBC owing to the continued existence of Heads of Agreement with Unisat, we know that our system matches exactly the performance requirements of the BBC for high-power satellite broadcasting.

We believe that our project now offers the only realistic route for Britain's entry into commercial space operations. Accordingly, all we seek is that the broadcasters should be released from the explicit or implicit pressures from Government to 'fly Unisat' at whatever costs to themselves and to wider UK employment and tax revenue interests.

We would welcome an early meeting with Home Office and DTI Ministers, or initially with Mr Jeffrey Sterling, to discuss all these issues before policy goes firm.

Yours faithfully,

T. G. Anderson

J G Anderson
Managing Director