

W.0325

27 April 1984

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

FLA. This minute summarises the technological considerations which are a major part of the DBS problem outlined in the joint memorandum of 30 March by the Home Secretary and the Secretary of State for Trade and Industry.

2. The basic concept of the original DBS project was to provide an all-British satellite for the television technology of the future, broadcasting to a new European technical standard (C-MAC) which, conveniently, required new TV sets (or adaptation of existing sets) just as the partial protection of the European Market from Far Eastern competition was in danger from the lapse of the German PAL patents.

3. Unfortunately the commercial basis of the project was never as strong as its technical basis and this, coupled with other unforeseen changes in the broadcasting scene, has (as I suggested in my minute of 16 December) brought the project to the verge of collapse. The major factors have been:

(a) the advent of cable which is partly aimed at the same market - this caused the BBC to become concerned about the size of the market for DBS and led to the involvement of the ITCA companies on a risk-sharing basis;

(b) the indications by the French and Germans that they will not use the European standard (the Germans will stay with PAL so their broadcasts can continue to be received in East Germany while the French seem likely to go for a

reduced MAC system which can be carried on on single cable distribution channel - C-MAC requires two channels) - this has substantially reduced the size of the European market for C-MAC and further eroded the confidence of the set manufacturers and their willingness to plan for the production levels that the BBC require for financial viability of the programmes;

(c) the development of Unisat as a hybrid satellite for telecommunications as well as DBS to meet the requirements of BT as a member of the Unisat consortium - this has made it unlikely that Unisat will have a significant export market;

(d) the drifting timetable, a 1986 start is now impossible, a 1987 start unlikely since the critical factor is getting enough sets in the shops and it takes 3 years from finalising the chip design to production of the first set - this causes further financial worries for the BBC who will have to pay for Unisat regardless of whether the sets are available in time.

4. The joint memorandum by the Home Secretary and the Secretary of State for Trade and Industry is an attempt to patch up the DBS project along the original lines as far as possible, regardless of the changes in the scene outlined above. These changes will exacerbate the tensions present between the partners in the project and, in my view, are likely to cause further crises even if a temporary solution is found for the present problems. Thus there is a high probability of commercial failure in the late 1980s with accusations of bad faith passing between the principal parties, and all turning to the Government to bail them out of a mess into which, in their view, it led them. What, then, are the penalties of letting the project fail now?

(a) Space industry

Because of the limitations of BAe and Marconi shorn of their

normal American and French partners, the "all-British" satellite has become 50-60% British, ie a similar British content to the normal commercial consortia which BAe and Marconi use for bidding for international contracts. Unisat is worth about £60m to BAe and Marconi and the export prospects are poor. Although the successful completion of Unisat would improve the credibility of BAe/Marconi as satellite suppliers, DBS is just one application of space technology and the loss of the project would not cripple the UK space industry. The Unisat consortium would presumably try to recover the £50m already committed from the BBC or the Government but does not appear to have a strong case.

(b) TV receiver industry

While the space aspects of DBS capture the attention, most money will be spent on the ground. UK TV set manufacturers are looking for an advanced product with which to fend off competition from the Far East. DBS with C-MAC would provide this and the manufacturers would expect to supply satellite dish aerials and associated electronics at a retail cost of about £400. Thus, on BBC projections (2 million viewers in 5 years) there is potential business of £800 million at shop prices (£400 million to the manufacturers, say) in the 1987-92 period. But the export prospects are very unclear. The hope of the Part Committee (which recommended the C-MAC standard) of a European DBS transmission standard seems to have disappeared and the UK risks being left with an idiosyncratic standard, good for protection purposes but not for exports. Without DBS, however, Korean and other Far Eastern products may erode our £500 million pa domestic TV industry, even though our largest manufacturer, Thorn-EMI, is working at Japanese efficiency standards.

(c) Film and programme production

The three DBS channels will cost £50-100 million pa to programme. Most of this will go on buying first-run feature films, some of which will be produced in the UK. These will be offered on the subscription channel (£7-8 a month). The

other channels will have cheap imports, repeats of popular programmes etc. The business for the UK might be £25 million a year but is small compared with that for the TV receiver manufacturers.

5. I conclude that the penalties of letting this project fail are not catastrophic, and they are certainly less serious now than they would be if the project was to continue with Government support and then fail a year or two later.

6. Moreover I believe that new opportunities would open up quite rapidly to compensate for these losses. For the concept of DBS will not go away with Unisat - neither should it. It is widely accepted that it will become the primary means of distributing TV programmes. The BBC and the ITCA companies would need to reconsider their position. A 1987 start would be out, but 1988 would be possible. The BBC might, however, consider omitting the interim C-MAC standard and going straight for a high definition (1000+ line) service by satellite in 1989 as the Japanese propose to do. This could have (given suitable programming) substantially greater market attraction. They would issue requests for competitive tenders for satellites with an expectation that BAe or Marconi would be the prime contractor selected.

7. Of course some commercial risks would remain, and the Government would have to judge whether the BBC was suitably constituted to take them, or whether private sector companies were a more suitable vehicle. But everyone could start with a clean slate and work out the option with the best commercial prospects in today's world.

8. I conclude, therefore, that

i. DBS has significant industrial benefits, most of which concern the TV set manufacturers. Unisat is not vital to these; it is therefore more important to have a viable DBS than Unisat;

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ii. you should not go beyond Lord Cockfield's proposals
in making concessions to the independent TV companies;

iii. if that causes the failure of this project, it is not
a catastrophe;

iv. but in those circumstances Government should make it
clear that it is receptive to new DBS proposals developed
from a 1984 view of the market and not constrained by
1980/81 perspectives.

9. I am copying this minute to Sir Robert Armstrong.

RBN

ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
27 April 1984

27 FEB 1984



W.0326

Mr Turnbull

27 April 1984

MR BARCLAY

DIRECT BROADCASTING BY SATELLITE - 1 MAY MEETING

- I enclose a minute for the Prime Minister on DBS. It has been copied only to Sir Robert Armstrong but I have, of course, no objection if it is felt that it would be helpful for other Ministers attending the meeting to see it.

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ROBIN B NICHOLSON