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NOTE OF A MEETING HELD ON 13 JULY 1987

DBS: MEETING WITH BSB

Present:	Home Secretary	Lord Blakenham
	Mr Renton	Sir Trevor Holdsworth
	Mr Hyde	Mr Graham Grist
	Mr Thomas	
	Mr Scoble	
	Mr Bickham	
	Mr Miller	

The meeting took place at the request of BSB following an exchange of letters between the Home Secretary and Lord Blakenham about the consortium's DBS project.

2. Lord Blakenham said that he would be grateful for clarification of two points before he and his partners signed contracts committing the BSB consortium to the franchise for the first three UK DBS channels. He asked, first, if the Home Secretary would confirm the undertaking given by Mr Mellor in a Written Answer on 3 March 1986 that the Government would not consider the assignment of the two remaining UK DBS channels until the new service had been operational for at least three years.

3. The Home Secretary said that he had been authorised by his colleagues to offer a guarantee that the two additional channels would not be allocated until BSB had been operational for at least three years. This reflected the terms in which the IBA had advertised the franchise for the first three channels. There was no guarantee of a further period of grace after BSB had been operational for three years, although the Home Secretary emphasised that neither he nor the IBA had any plans to assign the two remaining channels immediately thereafter.

4. Lord Blakenham thought it would be helpful for BSB to have a guarantee that the allocation process would not begin until three years had elapsed after BSB became operational. Sir Trevor Holdsworth made the point that BSB would have to raise the next tranche of funding, some £400 million, when they became operational in 1989. Accordingly, it would be very damaging if, in two years' time, the Government began to consider the allocation of the remaining channels, or the IBA advertised the franchise for these channels. The Home Secretary repeated that the guarantee was for three years only; he pointed out, however, that no-one could know that they had the franchise for the remaining channels until they were assigned, and this could not happen until after three years.

5. The Home Secretary declined to speculate on the circumstances in which the remaining two channels might be allocated, as it was not possible to anticipate what proposals might be brought forward by BSB itself or by others. The

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likelihood, as Mr Thomas pointed out, was that the principal factor guiding such consideration would be the demonstrable success of BSB; and the BSB team acknowledged that this was unlikely to be firmly established for some while. Concluding this part of the discussion, Lord Blakenham said that he drew comfort from the Home Secretary's point that no potential competitors would know that the franchise for the remaining channels had been allocated to them until three years had elapsed.

6. The second point of concern to BSB was the possibility of a film subscription channel on terrestrial television. Mr Grist explained that in the early years the income from film subscription would be vital to BSB. Its business plan was predicated on having a film subscription channel to provide income and, more important, to build an audience which would ultimately generate advertising revenue. Accordingly, the film subscription channel was crucial to the success of BSB. The consortium did not believe that the market could accommodate two such channels, and therefore any prospect of a rival service would have a devastating effect on BSB's viability.

7. The Home Secretary said that he well understood BSB's concern. As indicated in his letter of 10 July to Lord Blakenham, the Home Secretary undertook to take full account of BSB's interest in considering any further changes to the broadcasting environment. While the Government could not, of course, undertake to disapprove any new proposition as a matter of course, the Home Secretary made it clear that BSB was a venture which the Government hoped would succeed and that any proposals put to him would be considered in that context. If BSB proceed its three channels will comprise one of the pillars of the future broadcasting structure.

8. Lord Blakenham and his colleagues said they were heartened by this assurance.

Chin R. Miller

Private Office
15.7.87

C R MILLER
Private Secretary

BROADCASTING: DBS PT6

