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Prime Minister 2

cc/BG
QUEEN ANNE'S GATE LONDON SW1H 9AT

15 December 1987

This may be a difficult
decision for David Young in
view of his own strong support for
Cable and Wireless.

Dear David,

DG
18/12

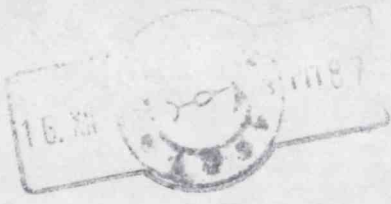
SPECIALISED SATELLITE SERVICES

I know that you have been considering recently whether or not to liberalise telecommunications policy to the extent of allowing some operators, other than BT and Mercury, to provide "specialised satellite services". The background is that when the Government announced its position on the telecommunications duopoly in November 1983 the then Minister (Kenneth Baker) said that we would keep under consideration ways of introducing new specialised services by satellite. The decision reached on this matter could have an important influence on the commercial viability of the DBS services being mounted by British Satellite Broadcasting (BSB).

BSB have considerable capacity - in terms both of spectrum and transponder power - to transmit data services in addition to their planned programme services, and we understand that they are in touch with a number of would-be service providers. Most of these services would apparently be aimed at closed-user groups. As such they would not be covered by the exemption in the Telecommunications Act 1984 for broadcasting services and would thus require a telecommunications licence. At present this would, of course, be precluded by the duopoly policy, because we have not yet, as I understand it, taken steps to allow new entrants to provide "specialised satellite services".

I believe that there is now a strong case for developing our policy at least to enable BSB to provide non-broadcast data services. My reasons are as follows:

- (a) the present policy prevents the full exploitation of a valuable national asset - the DBS frequencies and BSB's planned transponder capacity;
- (b) it may also be inhibiting entrepreneurs from bringing data services to the market. The fact that would-be service providers are talking to BSB suggests that BT and Mercury are not able to meet all the demand for satellite transmission facilities (or, at any rate, to meet it at prices which the market is prepared to pay);
- (c) as part of our policy to develop a broadcasting market we need to foster the development of competing programme services, especially ones which will be using subscription. BSB are one of the most significant



prospective entrants to the market, and will of course be financing their premium channel by subscription. As BSB is a high risk venture we should therefore ensure that they are not denied access to any legitimate sources of revenue which will help to ensure their viability. They have made it clear that revenue from data services will be important; and

(d) this development would succeed in introducing a competitive edge, so far lacking, to this part of the telecommunications market. It is relevant that BT has shown no inhibition in developing its interests in cable and in satellite programme services, being a major cable player and having, for example, options on a number of the channels Astra plans to provide, as well as being a substantial shareholder in Premier and the Children's Channel.

Such a development would clearly be consistent with the line taken in the November 1983 statement. I realise that the expression "specialised satellite services" can be interpreted in various ways, but if, as I understand to be the case, BT did not provide point to multipoint satellite services prior to the 1983 statement I do not think they can reasonably expect to be protected from competition now.

I am not arguing that BSB should be given a privileged position. If specialised satellite services were to be liberalised, then I fully accept that you might wish to license several operators besides BT and Mercury to provide uplink facilities for point to multipoint satellite services. BSB would have to apply for a licence on equal terms with any other aspiring operators. I am simply concerned that they should be given an opportunity to compete, in the interests of developing a more competitive telecommunication and broadcasting market.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robert Armstrong.

Yours,
Tony 12