

CONFIDENTIAL



CSBG

Prime Minister

TRANSFER OF TERRESTRIAL SERVICES TO DBS

attached
As agreed at the last meeting of MISC 128, I attach a draft aide-memoire for the discussion which David Young and I are to have with BSB on 9 June. I should be glad to know if you are content with the line we propose to adopt.

2. David Young's recent minute raises two points about the consultations with BSB. I have also seen your Private Secretary's letters of 1 and 2 June conveying your own views on this matter.

3. On David Young's first point, I share his view that BSB will almost certainly need to consult their shareholders before they can consider our proposals seriously, and I accordingly support the approach he canvasses: namely that we should agree that BSB management should be authorised to inform their shareholders and that as a consequence we should inform the BBC and IBA soon after we meet BSB - all this of course without commitment on our part. It seems likely that in turn, the IBA will feel they need to inform Channel 4 (their wholly owned subsidiary) and all the ITV companies, who under current arrangements fund Channel 4.

4. The nature of the future arrangements we propose for Channel 4 depends on whether or not, in line with David Young's idea, we decide that Channel 4 should go over to satellite, and what view we take of the likely implications of that on the channel's costs and future audiences. At this stage, therefore, I would prefer to talk frankly to the IBA about the proposal, making clear that all options for Channel 4 were open and that we were studying the various possibilities without any firm commitment.

/5.

CONFIDENTIAL

5. David Young's second point concerns the nature of the scheme to be put to BSB. He suggests that instead of a three year transitional period, the ending of the terrestrial transmission of Channel 4 (and BBC 2 if that is involved) should be linked to dish penetration. This reflects the likely concern of the broadcasters that they would stand to lose much of their audience and, in the case of Channel 4, its advertising revenue. Insofar as this different approach responds to the kind of worry I expressed in my paper (MISC 128(88)8) I naturally welcome it. However, we should be clear that the new approach would mean a fundamental change in the nature of the scheme, and accordingly in the arguments which could be advanced in support of it. While David may be right that dish penetration will be rapid, others take a different view; and if they are right the new approach would delay the arrival of new terrestrial channels, and hence the relief to the television advertising market which was one of the main thrusts behind the original scheme. Moreover, if the cut off is made dependent on high dish penetration the additional incentive for the consumer to secure a dish - namely to avoid losing access to Channel 4 (and BBC 2) - may be removed. The reasoning behind the scheme will become harder to discern or to explain. While a scheme modified on these lines would still give some help to BSB, (who would stand to get some revenue by transmitting the additional services and will have the reassurance that the additional UHF or DBS services would emerge, if at all, only at a point when it had captured a substantial share of the market), there are major sacrifices inherent in the variation now proposed. Apart from the possible damage to our ability to bring relief to the advertising market we should also be giving up the opportunity to provide additional programme services on the other two DBS channels, thereby denying opportunities for programme makers, entrepreneurs and of course for consumers who want additional programme services.

6. If you, and other colleagues, are content that we should discuss the matter with BSB (and then others) on the basis that the Government is considering, without any commitment, a number of variations to the original idea then I would not press my reservations at this stage though I continue to be concerned, particularly as regards BBC 2. The time for further discussion and decision within Government will be after we have taken our soundings.

7. Perhaps I could comment finally on the point you have raised about the consequences of the transfer of BBC 2 to satellite as regards the cost of the BBC television licence. Putting BBC 2 onto satellite would clearly increase transmission costs, which could be expected to cause the BBC to press for an increase in the licence fee, particularly during the period when the signal was also being broadcast terrestrially. We cannot at this stage say what these extra costs might amount to, but they would be fairly substantial. The overall transmission cost would of course be reduced once the period of simulcasting came to an end, but satellite transmission would still be more expensive than terrestrial. If, however, withdrawal of the terrestrial service was to result in a very marked decrease in the size of the BBC 2 audience, the effect could be to call into question the legitimacy of funding the service from the licence fee at all. There are clearly a number of important and difficult implications here which we shall need to think through very carefully. We shall also need to consider whether there are other ways in which we could effectively help the advertisers without running into the kind of problems emerging as a result of our study of David's scheme, either in its first or second model. But we can return to this after we have seen BSB and the broadcasting authorities.

4.

8. I am copying this minute to the members of MISC 128 and to Sir Robin Butler.

Douglas Hurd

6 June 1988



cc/B

DISCUSSION WITH BRITISH SATELLITE BROADCASTING : AIDE MEMOIRE

PRESENTATION OF CONCEPT : SPEAKING NOTE

The review of broadcasting has caused Ministers to consider which approach makes most effective use of scarce resources, including radio spectrum.

Wish to discuss with BSB in complete confidence scope for approach mutually beneficial to Government and BSB.

Have not yet spoken to IBA or BBC. If BSB feel they need to consult their shareholders before they can consider proposals seriously, grateful if they would let us know so that we may ourselves approach BBC and IBA in advance.

Ministers' current thinking favours UHF 5th Channel in early 1990s, 2.5GHz MVDS for cable system trunking only and for limited period.

Like to explore scope for package on other issues which might include:

Move of C4, and possibly BBC2, (but not S4C) to satellite, including period of simulcasting

Redeployment of BBC2/C4 frequencies to create new services, possibly regional and financed by advertising

Exploring with other countries possibility of securing additional DBS channels, joint or exclusive

Why good for BSB:

stimulus to market for dishes;

symbol of Government support for DBS

DBS4, DBS5 not used by new competing services

possibility of extra revenue from sharing infrastructure

Recognise raises many issues BSB will want to consider. All Ministers are asking BSB to do now is participate in an exercise with DTI, HO to investigate commercial and technical implications, and where difficulties might arise.

Can we name contact points now so work can proceed urgently?

QUESTIONS WHICH BSB MIGHT RAISE

- Q1 Timing of switch off and introduction of new terrestrial services?
- A For discussion, would like to have short transition period (perhaps 3 years), but could consider making it dependent on build up of penetration of receiving equipment.
- Q2 What advantage is there to BSB in this?
- A As above: also no competition for consumer investment from MMDS. Recognise also some potential drawbacks; keen to establish balance of advantages and disadvantages.
- Q3 Who will pay for extra infrastructure needs?
- A Need first to define options, eg scope for using spare BSB capacity/cost of new satellite system/new ground segment needs/cost of any additional backup. Then establish costs and consider how these might be met.
- Q4 What if Channel 4/BBC2 reluctant? Will Government force them to use DBS?
- A Hope DBS can be made an attractive proposition for them. Should be attractions for them for longer term: best (and perhaps only) route towards involvement in new technologies of HDTV/subscription/encryption.
- Q5 Will BSB be allowed to provide specialised telecoms services by satellite?
- A Secretary of State for Trade and Industry only recently invited bids; Prof. Carsberg will need to give advice; if BSB wins DTI would not want to prevent company providing services; impact of this proposal on specialised services needs further technical discussions.
- Q6 Will C4/BBC2 get use of full capacities of DBS4/5 (which exceed what they would need for existing TV services and would allow, eg, involvement in specialised telecoms services)?
- A No decisions have been taken. But technical possibilities of broader channels might be among attractions for them.
- Q7 Technical questions associated with sharing satellite or ground facilities.
- A Need technical discussions, and information from BSB on their planned facilities.

Q8 If take BBC2 and C4 what about BSB's ambitions for DBS 4 and DBS 5?

A Have already said intend to explore possibility of extra channels; these should provide scope for BSB's ambitions. First priority will be channels in same orbital slot to avoid need for steerable dishes.

Q9 Can BSB be assured of a share in the extra channels if we get them?

A Cannot give any assurances; as the law stands this would be a matter for the IBA.

Q10 What would happen if Government did not get extra DBS channels: impact on BSB's expectations?

A If only had 5 channels for UK, IBA might find it hard to give BSB all of them. In those circumstances BSB might find BBC2/C4 more acceptable occupants of DBS4/5 than new competing services.

Q11 What plans has the Government got for MMDS for general reception?

A There may be frequencies available at 12.5 GHz which could be used for MMDS or DBS services. But no decisions have been taken on whether, or on what timescale, these should be released for broadcasting purposes.

