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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

DIRECT BROADCASTING BY SATELLITE

Memorandum by the Secretaries of State for the Home Department and for Industry

In this memorandum we seek the approval of our colleagues for steps towards the development of direct broadcasting by satellite (DBS).

2. The paper at Annex B sets out the present position and the background to our proposals. The technology needed for the development of DBS is available and there are strong industrial and commercial arguments for an early start with a UK service. With DoI encouragement British Aerospace, GEC-Marconi and British Telecom have formed a "Joint Venture" to provide a satellite system; not only the industries which they represent, but also the consumer electronics industry, stand to gain substantially from an early UK start, and conversely to suffer if a start is postponed or abandoned - other countries such as France, Germany and Japan are already on the move.
3. The case on broadcasting grounds for embarking on DBS is less clear-cut. There is no immediate need for the additional TV channels it offers; and though DBS services (like other TV services) will no doubt create their own audience in time, in the short term there are risks that there may be more channels than there is good-quality material to fill, and that slow take-up will embarrass the programme providers (and, indirectly, the Government). However, these are risks inherent in any venture of this kind, and we do not believe they should cause us to turn aside from an important technological development of international significance in which the UK is well placed to play a leading role.
4. A Home Office study published in May 1981 reviewed all aspects of DBS, and in his forward the Home Secretary indicated the Government's readiness to consider a modest early start - perhaps two DBS channels (out of the five internationally allotted to us) beginning in about 1986. This course has been favoured by much of the comment received on the study, the general tone of which has been favourable (summary at Annex C). Accordingly we recommend an early start, on the basis set out below.

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5. The point has now been reached where, if there is to be a 1986 start, the Joint Venture needs an early and firm indication of Government encouragement so that it can negotiate specific agreement with a broadcasting organisation to form a secure basis for the design and construction of a satellite system. Otherwise, the Joint Venture will not feel able to go on with preparations, to which it is committing substantial sums of money.
6. We believe that such a statement can and should now be made. Our proposed text is at Annex A. In the rest of this paper we comment briefly on points in, or arising from, the draft statement.
7. What satellite? The Joint Venture, though not finally decided, favours a "stretched" version of the ECS satellite, which will provide 2 DBS channels and some telecommunications channels, rather than the larger L-Sat (which would not be economical if only 2 DBS channels were taken up forthwith). An operational service requires 2 satellites in orbit (the second as back-up) and a third ready on the ground. Such a construction programme would make it possible to provide, in the same time-scale, a third and even fourth DBS channel should demand develop.
8. DBS and cable: Although two developments would to some extent compete with each other, they would also support one another: DBS would provide new services for cable systems to relay, while cable could provide a substantial and immediate audience for DBS.
9. Which broadcasters? For the reasons set out in the draft statement, there are good arguments for allocating the 2 initial channels to the BBC. Indeed it is only by this means that a start can be made with an operational system in 1986. This is because, before a commercial television company (or consortium) could undertake to provide a DBS service, it would be necessary to settle the complex question of the basis of their participation (including the financial aspect) and pass legislation to assure the supervisory role of the IBA (or, possibly, some new authority). The BBC programme proposals are in our view sensible, and the BBC is well placed, by its experience, capacity and international reputation, to undertake the service.
10. IBA/commercial involvement: However, after initially holding back the IBA and some companies are now showing an interest in taking part in the initial phase of DBS. As a Government we must want to give them some opportunity and encouragement: we do not want it to appear that we are unduly favouring the

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BBC. But the fact is that, for the reasons given above, if we want an early start it must be with the BBC. However, as indicated in paragraph 7 above, the satellite segment could provide additional channels which could be exploited as the market expands by commercial television companies. Therefore the wording of the statement aims at a middle course, emphasising our intention to devise a framework and prepare legislative proposals, but with no commitment as yet to the timing either of legislation or of the opening of a commercial DBS service. We may hope that the making of the statement will itself have a catalytic effect in producing a clearer picture of the attitudes and objectives of the various parties.

11. Finance: The capital cost of the space segment would be found from the private sector and recovered through DBS (and telecommunications) channel rental payments. The DBS channel costs, and the cost of programme material, would in turn be met by: subscription payments (for a service limited to individual subscribers); and BBC licence fee revenue including, we suggest, a supplementary DBS licence (the introduction of such a fee would require regulations and legislation to amend the statutory dealer notification scheme before 1986). In the early years, an increase in BBC borrowing powers might be necessary to carry it through until revenue from DBS services built up. In the case of a service provided by a commercial company, advertising revenue could be used in combination with subscription (or possibly on its own). Those receiving DBS would also have to buy, or rent, special receiving equipment.

12. Parliamentary debate: The House has been told that no final decisions would be taken before Parliament had had an opportunity to consider the question of DBS. In our judgement a debate soon after the statement is made would be appropriate; in the circumstances we think that the statement should be made by way of Written Answer (in both Houses). The Lord President will, of course, be consulted about these arrangements.

13. We invite our colleagues, in the light of the above, to agree that the Home Secretary should make an early statement on the lines of Annex A signalling the Government's support for an early start with DBS.

W.W.
P.J.

Home Office.
Department of Industry.
16 February 1982

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DBS: DRAFT WRITTEN STATEMENT BY HOME SECRETARY

The Report of the Home Office Study on Direct Broadcasting by Satellite (DBS), published last May, reviewed all aspects of this new technological possibility and canvassed various policy options. In my foreword to the Report I indicated the Government's readiness to consider a modest early start with perhaps two channels of DBS service starting in the mid-1980s. In the light of the many constructive comments received on the study, and further soundings which the Government has taken, I am now able to announce that the Government has decided, in principle, that this country should indeed make an early start with DBS with the aim of having a service in operation in 1986. The Government's present thinking is that this would be a start with two channels; the number of channels could however be increased, as and when demand justified it, up to the maximum of five channels permitted by international allocation. The services would be transmitted at powers sufficient to permit both individual reception and community reception with cable distribution. [I intend to make a further announcement shortly about the future role of cable, in relation to DBS and more generally.]

2. The Government's object in announcing this decision in principle is to give the aerospace, electronics and telecommunications industries, and broadcasting interests, the encouragement they need in order to formulate specific proposals for the development of DBS. Already various bodies in the industries have stressed the importance which they attach to the opportunities which an early start would offer them in markets both at home and abroad; and several organisations have shown an interest in providing DBS television services. What is now needed, if early progress is to be made, is the putting together of a complete set of proposals which embraces the various interests, in particular those of aerospace and broadcasting.

3. For this purpose an indication is needed from the Government regarding the framework within which it sees DBS broadcasting services being provided, and by whom. I have already made it clear that DBS must develop in a way that is consistent with, and builds on, our existing broadcasting arrangements and institutions: DBS services will need to be subject to the supervision of a broadcasting authority and to the same programme standards as apply to existing services. As regards the financing of DBS, the Government expects the capital cost of providing the space segment to be found in the private sector. I refer to the financing of the television services (including rental of DBS channels) later in this statement.

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4. As regards the organisation or organisations to be authorised to provide DBS television programme services, in the longer term this country could have up to five DBS television (and perhaps additional radio) services, some provided by the BBC and some by commercial companies selected and supervised by a public authority, if possible the IBA. In the short term, however, an important consideration is that, if services are to commence in 1986, some decisions need to be taken, and agreements reached, during 1982 between the prospective providers of the services and of the satellite system. The BBC is well placed to meet this requirement. Its Charter and Licence and Agreement which Parliament debated last May are now broad enough to enable it, subject to my consent, to provide DBS services. The BBC has declared a readiness to provide two DBS services; is in the Government's view well suited to do so; and has outlined proposals for programming. One would be a service including a substantial element of feature films and major sporting, cultural and other events not presently available for transmission on BBC 1 or BBC 2. This would be paid for direct by those who wished to receive it - a subscription service. The other service would be a "Window on the World" service which would draw on the best television programmes from around the world (and indeed from this country). It would be offered as part of the Home Services of the BBC and financed by licence fee revenue (with perhaps some additional finance coming eventually from the revenue which the subscription service would generate). The Government envisages that a special DBS licence fee should be established; in the fullness of time this could bring much needed new buoyancy to the licence fee revenue. In the Government's view proposals on these lines, if the BBC continues to be ready to pursue them and can reach agreement with the satellite providers, would be a satisfactory basis on which to begin this country's DBS services.

5. The Government also attaches importance to the participation of commercial television companies in providing DBS services if, as it now appears, they wish to do so. The involvement of the IBA and commercial companies in DBS would require enabling legislation, not least because the existing broadcasting legislation does not authorise the IBA to provide more than the ITV and the Fourth Channel television services. In this and other respects (including finance) the framework for and indeed the timing of commercial participation in DBS would require further careful thought. The Government intends to press ahead with the necessary preparatory work leading to the legislation needed to enable this development to take place: and it hopes that the IBA and interested companies will continue their own thinking on participation in DBS, in consultation with the satellite providers.

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6. The immediate requirement now is for the BBC to enter into discussions with the British aerospace industry with a view to constructing and agreeing detailed proposals.

7. The Government commends to the House this approach to an important new technological development. [I understand that my rt hon Friend, the Leader of the House, intends to find time for a debate on this subject in the very near future.]

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DIRECT BROADCASTING BY SATELLITE

Note by the Home Office and the Department of Industry

Introduction

1. In his foreword to the report of the Home Office study on direct broadcasting by satellite (DBS), published last May, the Home Secretary said that the Government was prepared to give serious consideration to the option for as early a start as possible with perhaps one or two television channels (and possibly other information services); that this approach would need to be consistent with, and indeed build on, our existing broadcasting arrangements and institutions (in particular any new DBS services should be subject to the supervision of a broadcasting authority and to the same programme standards as apply to our existing broadcasting services); and that ways would have to be found of financing any new broadcasting services otherwise than by means of Government expenditure and without undermining our existing services. The Home Secretary invited comments on the study and on the Government's approach.
2. The study was generally well received and has excited a good deal of interest in the subject of DBS. Pressure is now building up, particularly from the aerospace and electronics industries, for an early announcement of a positive decision in principle by the Government. There is an expectation of an announcement early this year. The House of Commons was told (last May when the BBC's new Charter and Licence and Agreement were being debated) that no final decisions would be taken before Parliament had had an opportunity to consider the question of DBS.
3. We had hoped that the study, and particularly the indication that the Government was prepared to give serious consideration to a modest early start, would encourage the various industrial and broadcasting interests to get together to develop the detailed proposals. However it is now clear that detailed comprehensive proposals cannot be formulated unless and until the Government has announced a decision in principle that the UK should aim for an early start (and to announce further which broadcasting organisation(s) it would be prepared to authorise to provide DBS television services). Such a decision would be subject to the detailed proposals agreed between the broadcasting organisation(s) and the UK supplier of the satellite system being satisfactory to the Government, but it would give those concerned the incentive they need to get together and work out detailed proposals.
4. The purpose of this note is to provide a basis for the consideration of the

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basic question whether such a decision in principle should now be made and announced, and it discusses the issues involved under the following headings:

- (a) Outcome of the consultation exercise (paragraphs 6-8);
- (b) Should the UK go ahead with DBS as soon as possible? (paragraphs 9-17)
If so -
- (c) Should we aim for services for individual reception or community reception with cable distribution only? (paragraph 18);
- (d) How many channels? (paragraphs 19-21);
- (e) What sort of programme services? (paragraph 22-23);
- (f) What programme standards; and should there be supervision by a public authority? (paragraph 24);
- (g) Who should provide and supervise DBS programme services? (paragraph 25-33);
- (h) Who should provide the satellite system? (paragraph 34);
- (i) Finance (paragraphs 35-38).

5. The Government could - and this paper concludes that it should - decide in principle that, subject to the detailed proposals resulting from the negotiations being satisfactory from the Government's point of view in particular on the question of finance, the UK should aim for as early a start with DBS as possible (ie in about 1986).

OUTCOME OF THE CONSULTATIONS

6. A summary of the comments received on the DBS study is attached. Overall there is a wide measure of support for a modest early start with DBS on the lines indicated in the Home Secretary's foreword to the study. The aerospace, telecommunications and electronics industries are firmly of the view that an early (and hence a modest) start is needed in order to give UK firms a proven product with which, and a home base from which, to compete in what are seen as significant world markets for DBS related technology. With the encouragement of the Department of Industry a "Joint Venture" has been put together by British Aerospace, GEC-Marconi and British Telecom to provide a UK DBS satellite system.

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7. The broadcasting world is, overall, less certain about DBS. DBS would be bound to some extent to destabilize the existing arrangements and organisations, particularly commercial television which, having faced uncertainty for several years (most recently in the form of the franchise reallocations) will have over the next few years to adjust to the fourth television channel and to breakfast television. For these reasons, the IBA and the ITV companies collectively have only after some hesitation and still with a good deal of vagueness, expressed an interest in DBS. The IBA has indicated very recently that it would not wish to be excluded from an early involvement. (One ITV company, Granada Ltd, has repeated its interest in providing a subscription film service). The BBC on the other hand is keen for an early start with DBS and undoubtedly has the most developed proposals (for two DBS channels).

8. On the main policy questions (apart from whether the UK should aim for a modest early start), the main weight of comments was

- (a) in favour of DBS services being supervised by a public authority(s)
- (b) in favour of the retention of programme standards (eg concerning good taste and decency);
- (c) in favour of individual (rather than community only) reception.

SHOULD THE UK GO AHEAD WITH DBS AS SOON AS POSSIBLE?

9. There appears to be general agreement that DBS offers important industrial and commercial opportunities for the UK aerospace and electronics industries but that the exploitation of the markets which it is expected DBS will open up and for which the competition from Europe, the USA and the Far East seems likely to be fierce, will depend on an early UK start. Our aerospace industry, with British Aerospace the prime contractor for the two satellites which have been developed by the European Space Agency (ECS and L-Sat, either of which could be used for DBS), would be well placed to compete with the French and Germans who have (with substantial Government assistance) developed their own satellites outside ESA which they plan to launch probably in 1985/1986. However, while they have some lead over the UK with their hardware plans, they have yet to decide how to use the satellites and their thinking about this appears to be behind ours. There seems little doubt that if the UK were to have an operational DBS service in 1986 we should not be far behind, and could be up with, France and Germany. The argument for an early start with DBS from the point of view of the UK aerospace industry is therefore powerful. The same could be said in relation to that part of the electronics industry (principally GEC-Marconi) which is concerned with supply of ground transmitting stations.

10. DBS could also offer important opportunities for our consumer electronics

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industry, where the value of the markets are much larger. However the consumer electronics industry is much less robust and able to compete with the Far East and it will undoubtedly face difficulty when in 1983 the PAL licences expire, thereby depriving it of that protection from overseas competition. It is possible that DBS for the UK could result in substantial penetration of the UK receiving markets by overseas electronics industries. However two factors would favour UK industry:

- (a) they have close links with the UK television rental industry - an important consideration given that most DBS receivers are likely to be rented rather than purchased;
- (b) certain developments in picture and sound standards may prove to be both patentable in the UK and acceptable as international standards and this could assist our electronics industry. The Government will need to take decisions on the technical questions at an early date, after consultation with the broadcasters and the consumer electronics industry.

11. Among the other industries which could benefit from DBS are the television rental industry, the cable industry [(the development of cable is the subject of a separate paper)] and the film and broadcasting production industries.

12. While, therefore, there can be no guarantee that the opportunities offered by DBS will be exploited by all relevant sectors of British industry to the same extent, we conclude that if these opportunities are to be successfully exploited an early start with DBS is essential.

13. The broadcasting case for an early start with DBS is much less clear. The success of DBS will depend crucially on how attractive (and expensive) any new DBS services are to the public, the price at which DBS receiving equipment (or cable connection) can be rented or bought and the amount of money which people have available for the purpose. There is a good deal of uncertainty about the likely price (rental or purchase) of individual receiving equipment. Of those who commented to the DBS study, the cable operators (who might be thought to have a vested interest) suggested that the price of individual receiving equipment in volume production quoted in the DBS study (£150-200 on the basis of estimates supplied by the British Radio Equipment Manufacturers Association) was much too low; since then the ITAP has suggested that initially the price might be of the order of £400; installation might add another £100. However technological advances

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might permit the use of less sensitive receiving equipment than currently envisaged. At a recent conference on DBS the Japanese NEC suggested that as early as 1984 it would be offering receiving equipment at about £300; a similar figure has been suggested by Philips. This level of cost, given that much of the equipment is likely to be rented, may well be within the reach of many households. The market for video equipment has exploded in this country over the last year: some 7 per cent of all homes are estimated to have purchased or rented video equipment, the cost of which has only now got down to £400. Cable reception will be an attractive option for those who are already on cable or to whom cable systems may be extended in time - but are likely at least for some years ahead to be the minority, in urban areas.

14. On the question of the attractiveness of DBS services to the public, the likelihood is that DBS would offer at any rate one service consisting mainly of feature films. There appears to be a demand for such material: hence the success of video and the fact that within four months of its inception Rediffusion's pilot schemes of subscription television (which rely almost entirely on feature films) have attracted 25 per cent of the total number of subscribers to the networks involved (and this total number of subscribers has itself increased by about 74 per cent).

15. There is little doubt, however, that DBS carries risks in terms of our existing broadcasting arrangements.

- (a) The broadcasting organisation which takes DBS on will have to pay an economic charge for leasing a channel (possibly about £12 million a year) and pay for its programme material (possibly in the region of £20 million a year to begin with) for a period during which an audience is building up. The rate of audience build-up, assuming that the audience will pay for the service or determine the revenue from the service, will be crucial. The BBC continues to believe that on a conservative estimate an audience for its proposed services will reach 500,000 households in the third year, and some 1.25 million in the fifth. (It expects to break even with an audience of 1 million ie in the fourth or fifth year). The risk is that the audience will not build up as quickly as expected and that the broadcasting organisation providing the DBS service will have meanwhile to continue to pay for leasing a satellite channel and for its programme material. The Government could find itself in a difficult position if any broadcasting organisation authorised by it to provide DBS services ran into financial difficulty. This suggests that the organisation(s) authorised to provide DBS services should at least have experience and strength in the provision of broadcasting services.

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- (b) There are also risks, identified in the DBS study, to the quality of UK broadcasting in the long term. More channels does not inevitably mean wider range and better quality: it could mean simply that limited resources have to be spread more thinly, thus intensifying competition between the various broadcasting channels for audience ratings. This is a result which UK broadcasting policy has sought to avoid, most recently in relation to the fourth channel, (the effect of which and of breakfast television will not be apparent for a couple of years). However, these risks flowing from DBS are bound to be long term and could be reduced if DBS channels are used by the existing broadcasting organisations and financed primarily from new money (ie subscription).

If the main purpose of policy in broadcasting terms were to avoid or minimise these risks then a modest and later start (if any) with DBS would be preferable to a full and early start.

16. There are however important factors which point towards at any rate a modest early start. The UK's broadcasting industry is strong and has a world-wide reputation. It has many "firsts" to its credit. It has the English language as an international asset. If DBS proves successful in other countries and the UK has not embarked on DBS, we shall have missed an important new broadcasting opportunity. In order to exploit that opportunity to the full however it would seem safest to rely on our existing broadcasting organisations to lead the way into DBS.

17. We conclude that the balance of opportunities and risks both in the industrial and broadcasting fields suggests that the UK should aim for an early start with DBS.

SHOULD WE AIM FOR INDIVIDUAL RECEPTION OR COMMUNITY RECEPTION WITH CABLE DISTRIBUTION ONLY?

18. Of those who commented on the DBS study almost all favoured individual reception (which would, of course, permit community reception and cable distribution where this was attractive). Given the need for new DBS services to build up an audience as quickly as possible and given that cable distribution may be a practicable proposition only for people living in urban areas for some years to come. We conclude that DBS transmissions should be at powers sufficient to permit individual reception.

HOW MANY CHANNELS?

19. As indicated above, there was general agreement among those commenting on the DBS study that an early start should be made with DBS. There was also general

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agreement that an early start should be operational (ie the satellite system should consist of an operational satellite in orbit, a spare satellite also in orbit and a spare satellite on the ground) rather than pre-operational or experimental: a guaranteed service would be important to audience build-up. British industry could provide a two channel system based on the ECS satellite or up to a 5 channel system based on an L-Sat, either (from the technical point of view) by 1986. (It would also be possible with an ECS-based system to provide a two channel operational service plus a third service utilising capacity on the orbital spare.) The cost per channel is lower for a 5 channel satellite than for a 2 channel satellite provided of course that the satellite has a full payload.

20. From a decision in principle to go ahead it takes about 4 years to develop and construct a satellite system and before work can begin the provider of the satellite needs to know what the payload requirements are. For a 1986 start he needs to be able to complete negotiations on the leasing of the channels this year and preferably early this year. Only the BBC, who wish to take 2 channels, are in a position to enter into any commitment for the UK broadcasting channels within this timescale (see para 28-29). It is possible that other countries which share the British orbital position at 31° West, particularly Ireland and Spain, might be interested at some stage in leasing one or more channels on a UK satellite for their own broadcasting service. Once a UK decision in principle is taken to go ahead with DBS the satellite provider would be able to explore urgently whether a commitment from an overseas organisation could be secured sufficiently quickly to influence the specifications of the initial satellite. If, as may prove to be the case, the satellite provider were able to secure a firm commitment at this stage only from the BBC (and telecommunications users for whom the 31° West orbital position offers the attraction of lucrative transatlantic business) this would not preclude subsequent agreement with overseas, or UK commercial companies, for additional channels. The lead time between any such agreements and the availability of the channels could be less than the 4 years necessary for the initial operation because some of the spare capacity on the back up satellite could be harnessed. Thus while a firm British commitment to 2 channels is necessary now for a 1986 start the satellite provider might be able to lease other channels subsequently and have them available at much the same time as the first 2.

21. Our conclusion is that a firm commitment to 2 UK DBS services in 1986 represents the best way forward.

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WHAT SORT OF PROGRAMME SERVICES?

22. Whereas strong views were expressed about the kind of programme service which should be provided on the Fourth Channel, no strong views have been expressed on the sort of programme services which should be provided by satellite. The explanation for this is partly that the Fourth Channel has been created with a view to meeting as yet unmet needs (eg for more minority interest and educational programmes and for opportunities for producers outside the existing ITV system); and partly the recognition that DBS services will have to be sufficiently attractive to large numbers of people to persuade them to equip themselves to receive them. It would not therefore seem sensible to specify detailed programming objectives for DBS services.

23. The question arises, however, as to whether these services should (like the BBC's and the IBA's services) be required generally to provide a proper balance and wide range of programmes. The DBS study suggested that this would not be appropriate or necessary given that, for example, one of the channels might rely heavily on showing feature films and only the broadcasting unions (and the TUC) have disagreed with this. The ITV companies consider, however, that if these objectives were not set for DBS services they should be dispensed with in relation to ITV. This would be a significant change for ITV and should not in our view be contemplated. We conclude that DBS services should not initially be set the objectives of proper balance and wide-range as such. This does not mean that the Government should be indifferent to the first use to be made of a new and high-prestige broadcasting medium with a marked transnational aspect: merely that the public interest in the use to be made of DBS in this phase is not best served by adhering to the traditional "range and balance" requirement and (depending partly on the ideas of the broadcasters themselves) may need to be pursued in some other way. In the longer term, the considerations may be different.

WHAT PROGRAMME STANDARDS AND SHOULD THERE BE SUPERVISION BY A PUBLIC AUTHORITY?

24. It was widely accepted among those commenting on the DBS study that any new DBS service should be subject to the same programme standards, concerning in particular good taste, decency and due impartiality, as those which the existing services are required to observe. There was also general agreement that a public authority would be needed to secure the maintenance of programme standards, (though a few organisations (Granada Television and Satellite Television Ltd, the National Television Rental Association and some advertising organisations, including Saatchi and Saatchi) favoured abandoning traditional regulations and relying on self-regulation). We continue to believe that programme standards are important and are seen by the public and Parliament as important and that their maintenance requires

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supervision by a public authority.

WHO SHOULD PROVIDE AND SUPERVISE DBS PROGRAMME SERVICES?

25. A number of organisations expressed an interest in participating in the provision of programmes for a DBS television service (including the Fourth Channel Company, the Open University, ACC and Satellite Television Ltd, the company which has leased time on the OTS satellite to provide an advertising-financed television to European cable networks). However, only two bodies put forward specific proposals:

- (a) The BBC proposed that it should provide two DBS services, one financed by subscriptions from viewers, which would consist of first run feature films, and special musical, drama, and sporting events etc. For the second service the BBC originally proposed a "best of BBC 1 and BBC 2" service, which would be financed by the licence fee revenue (augmented by a supplementary fee for DBS reception - see paragraph 36 below). It has now developed these plans into a "Window on the World" service (again financed by the licence fee and a supplementary DBS fee). This service would draw on the best programme material from around the world (including BBC and, if the ITV companies wished, ITV programmes). This international approach to programming is one which lends itself particularly well to DBS.
- (b) Granada Television Ltd proposed that it should provide a service consisting of feature films and financed by subscription (augmented perhaps by some advertising revenue).

26. In its initial comments on the DBS study the IBA indicated a preference for standing aside from the first phase of DBS if that was a modest early start in the mid-80s, largely on the ground that for the next few years they and the ITV companies would be pre-occupied with settling down to the new franchises and launching Channel 4 and breakfast TV. Very recently the IBA has indicated that it would after all like to be involved with DBS at an early stage. Much of its thinking is still vague and it is not yet in a position to table specific proposals but it now accepts that DBS is going to happen and is concerned at the idea that the BBC should have the field entirely to itself in the initial phase.

27. In considering which organisations might be authorised to provide DBS television services it is necessary to remember that for a 1986 start the contract between the satellite provider and the broadcaster has to be signed very shortly. As the DBS study indicated, there are no legal or constitutional barriers to the immediate involvement of the BBC in DBS. (The changes to the Corporation's Charter and Licence and Agreement needed to remove these barriers were made in the Charter and Licence and Agreement which came into force last August.) Indeed, it is clear that a decision to authorise the BBC to lead the way into DBS, with two channels (as it has proposed) is the only decision which is compatible with the aim of achieving a 1986 operational start.

28. The positive arguments in favour of such a decision are as follows:

- (a) the BBC has the best developed set of proposals for DBS services;
- (b) the BBC is our principal instrument of national broadcasting and it would seem strange not to use its programming strength and experience as the foundation for the UK's venture in DBS. Indeed, given that part of the purpose of entry into DBS is to demonstrate a proven product so that world markets for DBS related technology can be exploited, a combination of British Aerospace, GEC-Marconi, British Telecom and the BBC in a DBS venture would be an impressive advertisement for UK industrial and broadcasting excellence;
- (c) the provision by the BBC of a subscription service could in due course create a new source of income for the Corporation which could eventually alleviate the pressure on the existing licence fee;
- (d) it would be easier if the BBC were involved from the outset to create a new DBS licence fee, which, as the audience for DBS expanded, could inject much needed buoyancy into the licence fee system.

29. The DBS study made it clear that any new DBS services would have to be consistent with our existing broadcasting arrangements. This consistency could be maintained in relation to the involvement of commercial companies in DBS only if there were a public authority which could select and supervise the commercial company(s) to provide programmes for DBS services. The establishment of this framework (even if the IBA were the supervisory body) would require

legislation. Before legislation could be introduced, moreover, it would be necessary to decide a number of difficult policy questions, such as what role (if any) the ITV companies (collectively or individually) might play; should any company or group of companies be given a channel for their exclusive use or would the Fourth Channel model (with one body commissioning material from a variety of different organisations) be preferable; how should commercial DBS services be financed - should they too be permitted to provide subscription services (perhaps in combination with advertising); and if so at what stage should they start? It is possible that the market would, at least initially, not be able to sustain a BBC and a commercial subscription service: indeed both the BBC and Granada Television were agreed on this point.

30. There would be obvious advantages in making the IBA responsible for the supervision of any DBS services which might be provided by private companies. This would avoid the need for a new supervisory body (the establishment of which would consume time and money); and the IBA already has wide experience of running commercial broadcasting services of the quality which would be needed to make DBS a success. It needs to be borne in mind, however, that the Authority will be fully stretched over the next few years with the Fourth Channel, breakfast television and the expansion of independent local radio. Moreover the involvement of the IBA would have to depend on the arrangements for the participation and supervision of private companies in DBS being compatible with the Authority's present responsibilities. Some possible arrangements for the participation of private companies would be compatible: for example, if it were decided that the ITV companies collectively should provide a service, as they have proposed (in such circumstances IBA supervision would probably be essential); or if it were decided to adopt the approach used for the fourth channel of an IBA subsidiary financed by the ITV companies. Other arrangements could present the IBA with a problem of conflict of interest: for example if it were charged with supervising a commercial service which was wholly and directly in competition with ITV. It seems likely, however, that any arrangements which were incompatible with IBA supervision would carry increased risks for our existing broadcasting system.

31. The involvement of commercial companies raises difficult questions and the legislation to give effect to the decisions taken would almost certainly be politically controversial just as the decisions on the Fourth Channel were controversial. Such legislation could not possibly be passed in time for a private company to be able to sign a contract with a satellite provider this year and there would be formidable difficulties in getting the legislation ready for next session. This does not mean, however, that commercial companies will necessarily be

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excluded from an early involvement in DBS. Provided the satellite provider has a firm contract with the BBC in the near future for 2 UK channels in 1986 he could subsequently provide additional channels to other users at much shorter notice (see para 20). The need for legislation therefore does not rule out the early involvement of commercial companies in DBS. The crucial questions about the timing of this involvement are whether a commercial service would be financed by subscription and whether the market would stand two subscription services from the outset. In this connection it is relevant that any expansion of cable would also be tapping the subscription market.

32. It would be politically very difficult for the Government to proceed on the basis of an early start with two BBC DBS services with no indication of any willingness to contemplate the involvement of commercial companies. The IBA and the ITV companies will want the Government to make it clear that it is prepared to entertain specific proposals for an early commercial participation in DBS. However the precise details and the timing of that involvement will need further thought and it would be essential that any encouragement of commercial involvement in DBS should not jeopardise the ability and the willingness of the BBC to enter into firm commitments with the satellite provider this year.

33. We therefore conclude:

- (a) It would be both appropriate, and the only practicable course, for the BBC to lead the way into DBS and for the Government to announce that it would be prepared in principle (subject to satisfactory detailed proposals) to authorise the BBC to provide two DBS services as soon as possible (ie 1986).
- (b) Further work should be done to identify and evaluate the options for the involvement and supervision of private companies in DBS so that decisions can be taken and (subject to those decisions) the necessary legislation prepared. In considering proposals for any additional services the Government would need to consider their financial viability and the effect they might have on the financing of the initial channels. It would be desirable for the IBA to be the supervisory body for this service(s), but this would depend on whether the arrangements decided for the involvement of private companies were compatible with the IBA's existing responsibilities.

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WHO SHOULD PROVIDE THE SATELLITE SYSTEM?

34. Since the primary justification for DBS is industrial and commercial it is essential that UK firms should provide the satellite system. With encouragement from the Department of Industry the two principal UK Aerospace concerns, British Aerospace and GEC-Marconi, have together with British Telecom formed a "Joint Venture" to provide and launch a DBS satellite system. They believe that the safest course would be to provide an ECS-based system which would provide two DBS channels (though at a power somewhat lower than the maximum allowed by the 1977 WARC-BS plan) and some telecommunications channels. It is not clear yet however whether the Joint Venture who have indicated an annual leasing cost per channel of £12 million can compete in terms of price per channel with American firms. GEC-Marconi have separately quoted the BBC a price of £10 million per channel on an American Hughes satellite - an indication, incidentally, that the members of the Joint Venture are not irrevocably committed to one another and might decide to make separate bids. The BBC is well aware that the Government is only interested in DBS if it is based on a British satellite, but it (or any programme providing organisation) can - and should - be expected to try hard for the lowest price it can get and it cannot in any event be expected to buy British at any price. Thus HMG cannot, at this stage, solemnise a marriage between the Joint Venture and the BBC; what it can do is encourage a courtship. At the end of that process, if it appears that neither the Joint Venture nor GEC-Marconi or British Aerospace separately offer attractive and competitive terms, the question will arise whether HMG is determined that the project should go ahead with a British satellite system and, if so, what assistance, if any, the Department of Industry might be able to provide (despite the clear statement in the Home Secretary's foreword that Government funds would not be available) in order to ensure that the programme provider did not have to pay over the odds for a British satellite system. We conclude that it should be left to the parties (ie the BBC and the Joint Venture) to negotiate the terms on which a satellite system should be provided and that, if agreement cannot be reached the Department of Industry should examine in the light of all the circumstances the case for some Government assistance in order to secure agreement.

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(a) A two channel BBC start

35. The cost to the BBC of the two channel service it has proposed might be some £12 million per year for the lease of each channel and possibly some £20 million per year for the material for each of the two services (1982 prices, but the figures are at this stage no more than guesstimates). The BBC envisages that its subscription service, which would necessarily be transmitted in an encoded form, would have to be self-financing (and that it might also in due course finance the

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other service). Clearly the revenue generated in the early years would not be sufficient to cover the costs, but the BBC's conservative estimate is that the subscription service would break even in the fourth or fifth year. The BBC would propose to finance any shortfall in subscription revenue in the early years by means of borrowing, though another possibility might be for the Corporation to create a subsidiary company and raise equity. Either course could necessitate an increase in its borrowing powers (currently £75 million with an extra £25 million subject to the Home Secretary's agreement). No licence fee money could be applied to the subscription service without the Home Secretary's consent, and both we and the BBC consider that the subscription service should not be financed by the licence fee revenue at all. There is a risk that the service might not be successful or might take longer to succeed than the BBC envisages. In such circumstances the Corporation might well have no option but to seek permission to a (further) increase in its borrowing powers or even to use or borrow its own licence fee revenue; and it would be difficult for the Government to refuse permission without jeopardising the DBS undertaking.

36. The Other BBC service would be provided free of charge to anyone who had equipped themselves to receive DBS transmissions. It would constitute part of the BBC's Home Services and could, under the Licence and Agreement, be financed from the licence fee revenue. The annual cost of the service (perhaps £20 million (1982)) would represent an extra £1.5 to 1.7 on the existing colour licence fee. The BBC also considers that there should be a higher rate licence fee for DBS receiving equipment - just as there is a higher rate fee for colour television now, but the extra fee would have to be small in the early years (perhaps £5 or £10 extra) so as to avoid any disincentive effect on the acquisition of DBS receiving equipment. A higher rate licence fee for DBS (which would require regulations under the Wireless Telegraphy Act 1949) is important in our view in order to put new buoyancy into the licence fee revenue, which now increases (without increases in the amount of the fees) by only some two per cent a year. Moreover if there is to be a DBS licence fee it should be introduced from the outset in order to ensure that all DBS receiving equipment is recorded for licensing and enforcement purposes when it is installed (this would require legislation to amend the Wireless Telegraphy Act 1967): it would be extremely difficult to introduce an effective DBS licensing system after large numbers of DBS receiving apparatus had been installed without the need for individuals to acquire a licence and for dealers to notify the licensing records office of sales and rentals.

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(b) Financing commercial DBS services

37. No final decision on the financing of later DBS commercial services are needed immediately. The IBA and the ITV companies (in particular Granada) appear to favour the subscription method, possibly supplemented by advertising revenue. This could raise difficulties however for the viability of the initial BBC subscription service, given that it may in any event face competition from cable.

38. The financial basis of DBS services must necessarily remain uncertain until the broadcasting and aerospace organisations come together to discuss and - it is hoped - reach agreement on a concrete proposition. They will not be able to do so until the Government announces a decision in principle to aim for an early start with DBS. Such a decision would not be final: it would have to be subject to the broadcasters and the aerospace industry producing detailed proposals which were acceptable to the Government, particularly on the question of finance.

Conclusion

39. The main conclusions reached in this paper are as follows:

- (a) The balance of opportunities and risks both in the industrial and broadcasting fields suggests that the UK should aim for an early operational start with DBS.
- (b) DBS transmissions should be at powers sufficient to permit individual reception.
- (c) The best way forward is for two BBC channels in 1986.
- (d) DBS services should not be set the objectives of proper balance and wide range.
- (e) DBS services should, however, be subject to the same programme standards (eg concerning good taste and decency and due impartiality) as apply to our existing broadcasting services; and they should be subject to the supervision of a public authority.
- (f) Further work should be done to examine the possibilities for the involvement of commercial companies in DBS and the legislation which this would entail.

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(g) The DBS satellite system must be British, but it will be for the BBC to negotiate terms with the British aerospace industry: if agreement cannot be reached, the Department of Industry should examine, in the light of all the circumstances, the case for some Government assistance in order to secure agreement.

(h) The financial basis of DBS services remains uncertain and requires further detailed work. This can only be done by the BBC on the basis of negotiations with the British aerospace industry and only on the basis of a decision in principle by the Government to authorise the BBC to lead the way into DBS.

40. We recommend that a decision in principle on the lines indicated above should be taken and soon so that the BBC and the British aerospace industry can negotiate them and reach agreement on detailed proposals. These would have to be subject to Government approval, particularly as to finance so in this sense the decision in principle could not be final.

41. The Government is committed to holding a debate in the House of Commons before final authorisations are given. Because of the commercial confidentiality of the detailed contractual arrangements it would be preferable if time could be found for a debate soon after the announcement of the decision in principle. Discussion could then focus on the general issues rather than the negotiated terms of any particular deal.

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DIRECT BROADCASTING BY SATELLITE - COMMENTS ON HOME OFFICE REPORT

1. General. Of the 69 organisations and 9 individuals who submitted comments on the DBS report almost all were in favour of going ahead with DBS. The aerospace, telecommunications and electronics industries are firmly of the view that an early start is essential to give UK firms a base from which to compete in the world market. They also appear to accept that an early start means an initial commitment to a modest two channel start. The broadcasting world is more divided: the BBC favours a modest early start and wants to be allocated the two channels, one for a new subscription service, the other for a "best of BBC television" service; the IBA initially favoured a later start (1990) when the ITV system will have had time to readjust to the fourth channel and breakfast television; it has now indicated, however, that it would not wish to be excluded from an early start. The ITV companies, through the ITCA, have spoken tentatively of forming a consortium to provide a satellite service while Granada TV Ltd has submitted a firm bid to provide a film subscription service. The broadcasting trade unions are cautious about the implications of DBS for their members in the existing broadcasting organisations in contrast to the advertising organisations and would be broadcasters, such as Mr Brian Haynes' Satellite Television Ltd, who are strongly in favour of increasing the number of commercial television channels.

2. Industrial opportunities. Five different sectors believe that they stand to gain from DBS;

- (a) Aerospace. Both British Aerospace and Marconi Space and Defence systems wish to provide satellite hardware and consider that there is good export potential. They are now collaborating with British Telecom in a "Joint Venture" with a view to providing a British DBS satellite.
- (b) Telecommunications. British Telecom believes that the telecommunications capacity of a broadcasting satellite will provide a boost to its operations.
- (c) Non domestic electronics. Marconi Space and Defence want to develop their expertise in ground stations.
- (d) Household electronics. Philips, Thorn EMI, the British Radio and Electronic Equipment Manufacturers Association and the National Television Rental Association believe that DBS can help protect the British receiver market from overseas penetration.

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(e) Cable. Marconi Communications, Philips and Thorn EMI, as well as the Cable Television Association see added financial advantage in linking DBS with an expansion of cable.

Only one contributor, the merchant bank Charterhouse Japhet, was wholly negative about the opportunities of DBS. After studying US experience they concluded that the future lay with cable, in comparison with which DBS was expensive, obsolescent, bound to require government subsidy and (pace other contributors) not likely to lead to much export of hardware.

3. Satellite costs. With the exception of the ABS there was general agreement that the satellite itself should be entrusted to a common carrier who would lease channels to the authorised broadcaster(s) and other telecommunications users. The BBC has obtained two estimates for a DBS system:

(i) SBC for 2 channel ECS: £13.4 million (? 1986 prices) per channel increasing by 10% a year for 7 years; 5 channel L-Sat £11.25 million.

(ii) GEC-Marconi for a 2 channel Ford satellite with 4 business systems: £10 million (1980 prices) per channel. The price is inflation indexed but not tapered over the life of the satellite. UK content of the satellite would be 75 per cent.

Subsequent figures quoted by the Joint Venture suggest that the total cost of an ECS satellite would be around £35-40m per year of which non-broadcasting services might bear a third and the two broadcasting channels one third (ie about £12m) each. Apart from the ABS there was general support for the Government's wish to rely on private capital, although the BBC, IBA, Philips, GEC-Marconi and the National Television Rental Association believe that some Government contribution towards development funding might be needed.

4. Date and Scale of start Only the IBA, the Association of Broadcasting Staff and Charterhouse Japhet declared themselves against an early start in the middle of the decade. There was support for the idea of an early and full five channel start rather than an initial five channel service from Lord Grade's Associated Communications Corporation, Mr Haynes' Satellite Television Ltd, the Interim Action Committee on the Film Industry, Reuters, the Association of Metropolitan Authorities and the Council for Educational Technology. The majority of contributors, however, including the BBC, Granada, Marconi, British Telecom, BREMA, and the Institute of Practitioners in Advertising accepted explicitly or implicitly that a modest start was preferable: amongst

the arguments advanced were that this offered the best chance of the early start which industry needed, allowed an evolution of our broadcasting system and prevented irreversible decisions being taken on our total allocation of channels in advance of some experience with DBS. Apart from the IBA which envisaged a possible pre-operational service before a fully operational service started after 1990 there was unanimity on the need to have a fully operational service (ie with back up satellites) from the outset.

5. Provision and financing of programmes. None of the contributors offered estimates of how much DBS programme services might cost. The BBC wish to offer a best of BBC 1 and BBC 2 service* funded out of licence fee revenue (including a supplementary licence for using satellite equipment) and a subscription service of films, sports and cultural events. These proposals were rejected by the ABS, the main BBC trades union, who favour services funded entirely from licence fee revenue and their financial viability was questioned by BREMA and an advertising agency. The National Consumer Council was concerned about the danger that subscription services, and particularly the BBC's, might cream off the best programmes from existing BBC services. Granada reiterated its proposal for one channel to provide a subscription feature film service and Channel Four, ACC and Satellite Television Ltd all expressed a desire to provide programmes without elaborating their precise nature and financing. The IBA see merit in the longer term in a repeat/preview ITV service together with possible specialist, educational and international services. They are discussing in the European Broadcasting Union a possible pan-European experiment. In the shorter term their view to that a British system will have to be viable on the basis of the UK market given the unpredictability of the supposed international advertising market which is central to the plans of Satellite Television Ltd. Proposals from other organisations for an educational channel were not supported by plausible financing arrangements. The trade unions were concerned that there should be at least the same quota of UK/EEC programme material on DBS as on existing services. The importance of the film industry's output for the success of DBS was recognised in a number of submissions and the Cinematograph Exhibitors Association wanted the quota and levy arrangements which apply to cinemas extended to DBS.

6. Supervision of programme objectives and standards. Granada, Satellite Television Ltd, the National Television Rental Association and some advertising organisations including Saatchi and Saatchi favoured abandoning traditional regulation and supervision for DBS. The overwhelming weight of contributions, however, favoured the retention of a supervisory mechanism, whether the BBC,

The BBC has now developed plans for a "window on the world" service (also financed from the licence fee, including a supplementary DBS licence fee) instead of its proposed "best of" service.

IBA or some new body. There was a general recognition that a satellite service might not provide the same range of programming as the traditional channels, though this was questioned by the trade unions and also by the IBA which do not want the new service to enjoy an unfair disadvantage over existing broadcasting services. Only the few listed above thought that standards and quality could be left to market forces and self regulation. The National Viewers and Listeners Association reaffirmed their view that our existing television services were far from adequately supervised.

7. Individual reception or cable. Only the Association of Cinematograph Television and Allied Technicians favoured confining DBS entirely to community reception (on the grounds that this would make it easier to prevent reception of unsupervised material including foreign broadcasts). The role of cable was highlighted by a number of contributors, however, including the IBA, GEC-Marconi, Thorn-EMI, Philips and the Institute of Practitioners in Advertising as well as the Cable Television Association who challenged the figures for the cost of satellite receiving equipment predicted in the study. They considered that a rental charge of at least £20 a month was likely at the outset for individual equipment (£10 was quoted in the study) as the likely rental cost once volume production of the equipment had been achieved and with an installation charge of at least £50. The Association thought that the total cost would inhibit a fast take up of DBS services, whereas cable relay would be much cheaper and thus encourage faster audience growth.

8. Other technical issues. The BBC and IBA differ on the vision/sound standards which DBS should use. While the IBA believe that DBS provides a never to be missed opportunity for introducing new vision standards which could pave the way for high definition television while certain important improvements could be made the BBC consider that high definition television is not possible in the timescale necessary for an early start. There is more agreement on the possibility of including digital sound systems with each television signal. Satellite Television Ltd would want sound channels in several languages to accompany the television picture whereas the BBC are sceptical of the cost effectiveness of this. The Corporation consider that two sound channels might be used for television stereo sound together and four others devoted to separate radio services.

9. International broadcasting. Contributors were divided as to whether the phenomenon of overspill from one country to another was a threat to be tackled or an opportunity to be exploited. Manufacturers, Satellite Television and some advertising organisations want to take maximum advantage of UK overspill abroad

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and accept either implicitly or explicitly the inevitability of foreign overspill in the UK. The trades unions, the National Association of Local Councils and the National Viewers and Listeners Association call for international agreements to control overspill. The IBA is relaxed about the scale of foreign penetration while the BBC consider their proposals to be a safeguard against excessive foreign DBS penetration into UK homes.

10. Environment. The unsightliness of individual antennae was a concern to local councils and environmental bodies. The Countryside Commission proposed that an advisory working party should examine what could be done.

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