

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London S W 1

12 December 1983

Dear Mr Turnbull,

Michael Scholar telephoned me last evening to say that you were enquiring about the alternative satellite system to Unisat on which I had given him brief details some weeks ago.

The position at that time was that we had advised the Prime Minister that planning was proceeding on an alternative project, since it was abundantly clear that Unisat could not do the job required by the BBC efficiently and economically. We had specifically requested, on grounds of commercial confidentiality, that there should be no intervention with the DTI or with the Home Office : the intention was merely to advise the Prime Minister that an alternative was being framed.

Michael Scholar tells me that you have not seen the earlier papers. For reference I enclose a copy of a summary paper that we had put to the BBC in September, outlining the fundamental problems of Unisat and explaining the main features of our alternative proposals.

We have been unable to negotiate directly with the BBC since they have been legally bound to talk only to Unisat under the Heads of Agreement entered into in March, after twelve months of prior negotiations. However, the situation we have now reached is that our alternative project has been thoroughly checked out on all technical and financial details, and on this basis we have recently submitted an unsolicited offer to the BBC.

This offer is based on full technical evaluations with system suppliers and launch agencies, with detailed costings of all aspects of the project. It has further been established that the entire project can be financed by the City of London.

For the BBC, our offer gives :

a guarantee that the system will be delivered on time and will meet all their technical performance requirements

an effective price level 40% below Unisat, thereby avoiding jeopardy to the BBC's commercial future

For 'UK Limited', our project offers :

a shared DBS system that will cater for the requirements of the BBC, the IBA franchises, and RTE, with all parties benefitting from the economies of scale. (RTE have strongly welcomed our proposals, and the IBA are now showing strong interest as well)

as much UK content by value as Unisat

a project that will show profit and therefore tax revenue to HMG (whereas Unisat will make losses of about one hundred million pounds)

the chance of technical collaboration with Eire on a major joint project

possibilities of a follow-on telecommunications satellite system, again with prospects of collaboration with Eire

Most importantly, the new project is a private enterprise venture rather than an artificial construct of Government. It would enable Britain to be the first European nation in commercial space operations, and would greatly strengthen the country's technological capability.

Finally, the project avoids the increasing risk that Eire will go ahead on its own with up to five DBS channels backed by American money and programme makers. This would risk giving total coverage of the UK with lowest-common-denominator TV, damaging the standards that have been set by decades of development of public broadcasting in Britain.

If you need any further information, please call me on 543 3676 at any time.

Yours sincerely

John Anderson

(J G Anderson)

Britsat

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Andrew Turnbull Esq
Private Office
10 Downing Street
London S W 1

13 December 1983

Dear Mr Turnbull,

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UNISAT

Further to my letter of 12 December, I enclose for your information a copy of a letter we have just sent to the Treasury. You will see that we are clear that supporting Unisat from public funds could be a very large burden indeed, quite out of line with current public expenditure policy.

The only way that our alternative project can be properly assessed by the BBC, and subsequently by Government, is for the Heads of Agreement with Unisat to be scrapped. Until then, the BBC are legally prevented from negotiating with us.

There is very little time left to get our project under way for a launch by the beginning of the 1986 TV season, given the long lead-time for satellite building and delivery. The sooner the BBC are freed from Unisat, the sooner they can look at the alternatives. Otherwise we are already being asked by the Irish to plan with them on their own if there is no progress with the BBC, and this would be very bad for the UK on all counts.

Now that the Unisat decisions are in front of senior Ministers, we should be grateful if you would bring this letter, today's letter to the Treasury, and our letter to you of 12 December to the Prime Minister's attention.

Yours sincerely

John Anderson

(J G Anderson)

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Richard Wilson Esq
H M Treasury
London S W 1

13 December 1983

POSSIBILITY OF UNISAT SEEKING SUPPORT FROM PUBLIC FUNDS

We spoke earlier today about this matter.

Michael Scholar telephoned me on Sunday to pass on a request from Andrew Turnbull at No.10 for information about progress on our alternative DBS project, which we had started to plan when it became clear that there were fundamental difficulties with Unisat. I enclose for your information a copy of the note I sent to Andrew Turnbull. You will appreciate that we are still very concerned to guard the commercial confidentiality of the alternative project proposals, but it is important to stress that we have a solution that could quickly satisfy nearly all the commercial interests of the BBC and 'UK Limited' including the aerospace firms involved in Unisat.

It is clear from the press and from our own soundings that last-minute attempts are being made to rescue Unisat, if only because there could be considerable embarrassment for the Government if the BBC drops DBS. The Government could readily drop the C-MAC requirement, or at least fudge the issue for the time being, possibly blaming the French, as this would cost nothing and most of the manufacturers now concede that C-MAC would depress the market for receivers and thus the potential revenue. It is this factor, together with Unisat, that is stopping the BBC from proceeding.

The more difficult problem is to free the BBC from the cost and risk burden of Unisat. Unisat was 'devised' by the DTI, and has always been an unnatural and forced subsidy of the UK aerospace industry (and many overseas subcontractors) in an attempt to catch up with current US commercial satellite products and designs. In practice, there would be no order apart from Britain for the Unisat design, so the project has yet another resemblance

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to Concorde. The charging of this subsidy to the BBC as prime user of the system is the main cause of the non-viability of DBS for the BBC.

The alternative project, which has involved design work by top-flight US engineers as well as considerable financial planning, represents a more rational approach. It gives the BBC a 40% cost reduction together with total confidence on technical performance and on the delivery schedule, while retaining as much UK content by value as applies with Unisat. We and only we could now get Britain into DBS operations quickly, and thereby create a new mass market in customer reception equipment and installation for UK firms. This customer equipment market will be worth far more than the satellite system itself.

It would appear to us to be very ill-advised for the Government to further prop-up British Aerospace with the Unisat effort, concurrent with the request for some 400 million pounds being sought for the Airbus. As stated above, there will be no follow-on orders so support for Unisat can hardly be treated as 'launching aid', and in any event both British Aerospace and GEC-Marconi are over-committed to work on other satellite projects including ESA projects, Skynet 4, and huge sub-contracts for Intelsat VI. There is no danger in any real sense of job losses if Unisat were dropped, by comparison with the Airbus issues.

If public funds to be committed in haste over the next few days to Unisat, this could prove to be a very open-ended commitment since Unisat could never thereafter be abandoned. The Government might even face the need to cover the costs of any failure on the part of the BBC in getting their programming and marketing properly organised.

Our detailed figures, derived from Unisat's own cost figures, show that it would require some 150 million pounds even without cost escalation to square the figures. Looked at another way, Unisat had it proceeded would have cost the Treasury some eighty million pounds in lost tax revenue.

British Telecom will be bearing their large share of the inevitable losses of Unisat, (and this would have to be brought out in the prospectus next year), but in addition BT are paying an extremely high price for use of part of the Unisat transmission capacity and have no clear plans for marketing this capacity. Therefore there is little chance of enough counterbalancing revenue to set against their annual costs of the transmission capacity. This is a matter that should have been brought out to the DTI and to the Treasury under the normal processes of giving statutory approval to BT's capital expenditure plans, but we doubt whether any such figures have been tabled.

By contrast, the alternative project will provide tax revenues of over one hundred million pounds over the same system life. Therefore the 'opportunity cost' of supporting Unisat with public funds would be approaching two hundred million pounds, plus possible depression of the sale price of British Telecom. These costs to the public purse could go far higher if direct subsidies were made, and if cost escalation on the project continued.

In other words, supporting Unisat could have a cost in real terms to the UK taxpayer that actually exceeds the total project cost that we have planned and for which finance is on offer from the private sector. No doubt the Treasury will draw its own conclusions, and we feel it is the responsibility of the Treasury to examine more closely with us, privately, the figures we have outlined.

We are, we repeat, most anxious to protect the commercial confidentiality of our project from discussion with officials in other Departments, especially officials in the DTI who are effectively 'captive' to the aerospace interests. However, you will see from the figures given above that we have felt it only proper to advise you of the heavy financial costs of supporting the Unisat venture. We have full substantiation of all these figures and would be available to discuss them with you or your colleagues at short notice if required.

I am copying this to Michael Scholar and Kit Chivers. I will be available on 543 3676 for the next two days if you need to contact me, and we would be available to meet Treasury officials at any time this week.

(J G Anderson)