



CONFIDENTIAL

JH 397

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE: THE BBC/UNISAT PROJECT

The Home Secretary wrote to you yesterday about the position that has been reached on this project. You will recollect that it was discussed in February last year by Economics Committee and, in approving the project, the Committee recognised that "the leasing of two channels from 1986 would involve the BBC in some financial risk but that the industrial advantages of developing DBS were overriding". Although there is still risk to the BBC, there are still substantial industrial benefits to be gained. The essential justification for the project has not, therefore, changed, but undoubtedly the attitude of the BBC has. I do not believe, however, that we can lightly entertain the consequences of a complete breakdown of this project. Not only would there be a public row and legal consequences involving Government, but there would be considerable damage to our relations with Industry. Nor would it help our policy of trying to encourage the private sector to fund new technological developments.

2 I should make it clear that a major factor in Unisat being obliged to withdraw if uncertainty continues is the position of the financial institutions providing the leasing finance. They



will make no commitments until a BBC/Unisat contract is signed.

The institutions wish to take advantage of tax allowances in this financial year and, if the position is not clear by early January, they will take their funds elsewhere. Inevitably the project would then collapse.

3 Coming new to this matter I am bound to say that I believe the BBC has insisted on Unisat making commitments and progress on the project at a rate and in a way which the BBC have not themselves been prepared to match. Yet the BBC deny any commitment to Unisat at all even though they have signed heads of agreement detailing penalty clauses for late delivery and which Unisat would be obliged to observe.

4 Nevertheless, I do not disagree with Leon Brittan when he says that the BBC cannot and should not be compelled to go ahead with DBS if they no longer wish to do so. On the other hand what I believe very firmly indeed is that they should be told quite plainly that in no circumstances will they be allowed to purchase satellite capacity from any other company if they decide not to go ahead. It would be intolerable for the BBC simply to leave the Government with an industrial and legal mess while they sought alternative arrangements.

5 It may be that the meeting of the BBC Board of Governors today will provide a solution to the problems but that seems



unlikely. I wish, therefore, to propose a way forward from the present difficulties, which will compel no one but cause all concerned to recognise financial and operational realities. First the BBC should be advised that they may proceed on DBS only with Unisat and they must be given a very early deadline to make up their minds and sign a contract. If the BBC does decide that they wish to proceed in some form of partnership with an independent company rather than alone, the IBA, acting as the Home Secretary's agent, should run a very quick competition to identify a partner or partners. Speed is essential not only to ensure that the project can continue but because delays will simply result in increased costs. It would be an essential condition in that competition that Unisat would provide the space segment. Those who did not wish to use Unisat would not apply. They would still be free to compete for the other channels the IBA will be offering when it is formally empowered to do so after the Cable and Broadcasting Bill is enacted. No one could therefore allege compulsion. If the BBC does not want to go ahead and no independent candidates come forward, then inevitably Unisat must founder but Government will at least have made positive efforts to secure an initiative which Government itself promoted in the first instance.

6 I am sending a copy of this minute to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Home Secretary and to Sir Robert Armstrong.

NT
NT

15 December 1983



10 DOWNING STREET

File 46
a Lord President
from
TSY
CO

From the Private Secretary

19 December 1983

DIRECT BROADCASTING BY SATELLITE

The Prime Minister was grateful for your Secretary of State's minute of 15 December about the BBC and UNISAT. She was also grateful for the report from the Home Secretary contained in Mike Gillespie's letter to me of 16 December.

The Prime Minister has noted the position, and your Secretary of State's views, and would be grateful to be kept in touch with developments.

I am sending a copy of this letter to the recipients of the earlier correspondence.

DAVID BARCLAY

Steve Nicklen, Esq.,
Department of Trade and Industry.