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HOME OFFICE
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12 January 1984

MS

Dear David,

Prime Minister
Unisat extend the
deadline for agreement
with the BBC and IBA.

DIRECT BROADCASTING BY SATELLITE: THE BBC/UNISAT PROJECT

There have been further developments in the situation since it was reported to the Prime Minister and other Ministers, in a series of minutes and letters shortly before Christmas, and the Home Secretary judged that it might be helpful to the Prime Minister and some other colleagues to have a further situation report. This of course does not displace the evaluation sought in your letter of 22 December to Callum McCarthy at DTI: however, as I believe the DTI have been explaining to you, that evaluation will be more easily carried out when the situation has become a little less fluid than the following paragraphs show it to be just at present.

DBB
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Representatives of Unisat came to see the Home Secretary and Secretary of State for Trade and Industry on Thursday 22 December. They explained their difficulties in continuing to spend money on the project in the absence of binding contracts with the BBC, and declared that they would have to terminate it early in January in the absence of guarantees of further expenditure from the BBC or from the Government.

The BBC's difficulty, as has been previously explained, is in committing itself to expenditure on the project before it knows that it has a sound basis for proceeding - and this the BBC sees as involving a joint venture with a partner. Hence the BBC's urgent explorations with the IBA of possible schemes of co-operation.

At the 22 December meeting Ministers discouraged any Unisat idea of a Government guarantee, while making it clear that the Government were anxious that the project should continue and would use their good offices with all parties to that end. The meeting considered possible ways in which the project might be kept in being while the BBC and IBA explored possible means of collaboration. As a result, Unisat put proposals to the BBC on 5 January. These outlined ways in which the project might be modified so as to accommodate a BBC/IBA joint venture, and a postponement of the launch date (which now seems inevitable) from 1986 to 1987. Unisat's central proposal, however, was that, without prejudice to the question of liability for money already spent (on which the views of the BBC and Unisat differ), the BBC should guarantee a share of the cost of expenditure on the project incurred by Unisat from now until mid-March, during which time the BBC would be expected to reach a conclusion on the feasibility of a joint venture with the IBA or another means of continuing with the project.

The Home Secretary undertook to use his good offices to ensure that this proposition was properly considered by the BBC. To that end he and Mr Baker saw the Chairman and Director General of the BBC on Tuesday 10 January. They, while reaffirming their desire to continue with Unisat in DBS and to negotiate

/a joint venture

David Barclay, Esq

a joint venture with the IBA, made it clear that they could not see their way to giving Unisat the guarantee sought, at a time when they could not be sure that they would by mid-March be in a position to continue with the project. They will be informing Unisat accordingly.

A separate meeting between the Home Secretary and Lord Thomson made it clear that, while the IBA are keen to participate in an early British DBS project and to collaborate with the BBC, they and the BBC are some way off agreeing on the basis of collaboration. Moreover, the IBA would be only part of the act: they would need to find a DBS contractor(s) (in much the same way as for terrestrial ITV) to enter into a financial commitment with Unisat.

Unisat had said that in the absence of agreement with the BBC they would halt the project on Friday 13 January, redeploy or dismiss the work force and begin legal proceedings against the BBC to recover the money spent or committed. However, in an urgent move to seek a way ahead, Ministers on Tuesday asked Mr Jeffrey Sterling, special adviser to Mr Tebbit, to explore with all parties whether there were ways of avoiding an imminent collapse of the project, and we have now heard that Unisat have decided not to close down tomorrow.

I am sending a copy of this letter to the Private Secretaries to the Lord President; the Foreign and Commonwealth Secretary; the Chancellor of the Exchequer; the Secretary of State for Trade and Industry and Sir Robert Armstrong.

Yours ever

Mike

M J GILLESPIE



DBS

A and B

ITCA are likely to make this their main talking-point. The Prime Minister will be familiar with the present position from a number of recent reports (most recently the Home Office letters of 12 and 25 January). Mr J Sterling is continuing his efforts to explore with the BBC, IBA, ITCA and Unisat the prospects of keeping the present DBS project going on a revised and shared basis. A working group chaired by Mr Whitney (Director General of the IBA) has examined the issues in detail and produced a report which we expect will be discussed with Mr Sterling at a meeting on Tuesday 14 February with a view to a further report to the Home Secretary and Secretary of State for Trade and Industry.

2. The possibility is emerging of a joint project on the following lines. There would be a joint BBC/IBA company to provide (probably) 3 DBS channels as an entity, to be financed by a single subscription from those who took the service. As before the satellite system would be funded by the private sector. The start date could be 1987 and the resources so far committed by the members of Unisat (BAe, GEC-Marconi and BT) would not be wasted. It seems likely that all the ITCA companies, except possibly a few of the smaller ones, would wish to join. In addition to the joint company, there would be a joint body, which would almost certainly require statutory provision, to assume the responsibilities of a broadcasting authority for the output of the company for the duration of the project. Part II of the Cable Bill, which empowers the IBA to provide DBS services on the normal contractual basis, would be enacted as planned, but would probably remain 'on ice' for the life-time of the joint project (probably of the order of 7 years). The joint project would use the Unisat system under construction, though of course fresh negotiation over specification, price etc would be required.

3. The ITCA companies take the view (which they are likely to urge on the Prime Minister) that they could not engage in DBS on this (or any other) basis unless they secure an extension (probably for 7 years) of their terrestrial franchises (which expire at the end of 1989), so that they and their shareholders could be committed to the DBS project without the distraction of



franchise renewal or the risk of being left without a terrestrial franchise.

4. The Home Secretary and the Trade and Industry Secretary have given a fair wind to the exploration of a joint project because it could well offer the best prospect of getting a good-quality British DBS service going in the mid-1980s, and would avoid the risk of dissipating the progress made by Unisat. Clearly the project as it is likely to emerge would be some way off from the more competitive approach earlier envisaged, and when a 'package' emerges Ministers will have to decide whether its advantages outweigh its drawbacks. In particular, to make the ITV companies the sole, or chief, non-BBC participants in the project, and to confer the extension of terrestrial TV franchises which they understandably seek, are difficult propositions for the Government, at variance with its preferred approach. They will require careful consideration in the light of ITCA's case for the extension (which we have just received) and the reaction of the IBA (which we await). Meanwhile, ITCA should not be encouraged to believe that an extension of franchises can be taken for granted.

5. The Prime Minister may wish to

- (a) listen to the ITCA arguments;
- (b) confirm the Government's readiness to see full exploration of the prospect of a joint project utilising facilities provided by Unisat;
- (c) emphasise that the Government will look sympathetically at any package acceptable to all parties - including Unisat;
- (d) remind ITCA that there are elements in it - in particular the renewal or extension of ITV terrestrial franchises - which the Government would not find it easy to accept, and could not endorse without careful consideration.



Channel 4

Our impression is that Channel 4 is at present in smooth waters. The grumbling from the ITV companies about its costs (see below) have largely died away - in part, no doubt, because of the considerable buoyancy of ITV advertising revenue. We believe that overall the ITV companies are reasonably content. Channel 4 audiences are on the increase: "The Far Pavilions" gave them a considerable boost, and various programmes of quality - films, and the new series on China ("Heart of the Dragon"), are giving satisfaction to discriminating viewers. There have been few recent criticisms of bias, bad language etc (but the result of Mrs Whitehouse's court action over the late-night showing of "Scum" is awaited).

Channel 4 Finance

2. Channel 4 is financed by means of subscription levied on the ITV companies by the IBA. The total subscription for 1984 is £139m, of which Channel 4 will receive £111m and £28m will go to the separate Welsh Fourth Channel (S4C). This represents an increase on the previous financial year of 9.4% for Channel 4 and 11.5% for S4C (ITV advertising revenue for 1983 was 18% up on 1982). In return for their Channel 4 subscriptions, the ITV companies have the right to sell advertising on Channel 4.

Equity/IPA dispute

3. The extra advertising revenue earned by the ITV companies has so far fallen short of their Channel 4 contribution. This is because of low audiences; Channel 4's newness as a medium; and the 18-month old Equity/IPA dispute. The dispute is over the payments to actors for repeats of TV advertisements. After more than a year, this looks increasingly like a dispute without a solution. The parties to it are not seriously hurt by it and have no strong incentive to settle. Equity seems anarchic, the IPA stubborn. The parties hurt by it - Channel 4 and therefore the ITV companies; also TV-AM - can do little to help resolve it. Its effects are gradually diminishing as more and more TV advertisements are made without Equity performers. The IBA and others have



been energetic in offering mediation, so far to no avail. Appeals have been made to the Government to intervene. Ministers have taken the view that this is not their function - and anyway there is no reason to believe that Ministers might succeed where other intermediaries have failed.

ITV exports

4. ITV sales of programmes overseas have averaged £20m-£30m over the last 5 years. It is a difficult market because of the vast surplus of television product available worldwide, and because of the repeat fees payable to the talent unions. Leading exporters are Thames, Granada, Anglia and LWT. Thames has been short-listed this year for the Queen's Award for export achievement.



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DTI
CO

JG

10 DOWNING STREET

From the Private Secretary

13 January 1984

DIRECT BROADCASTING BY SATELLITE

Thank you for your letter of 12 January, reporting recent developments on the BBC/Unisat project. I have shown this to the Prime Minister, who has noted it without comment.

I am copying this letter to the recipients of yours.

(DAVID BARCLAY)

Michael Gillespie, Esq.,
Home Office.

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