

MC

CONFIDENTIAL

PRIME MINISTER

POLICY UNIT
27 April 1984

DBS

DBS will be an important broadcasting development and one which is likely to provide significant technological opportunities for the UK.

However, we are now in danger of not only failing to realise these opportunities but of making damaging and inappropriate concessions for our general approach to broadcasting and our commitment to competition.

We do not consider that the proposed concessions are desirable on either broadcasting or wider industrial grounds.

We have the strong impression that the Government's support of a British DBS system based on the Unisat Satellite has encouraged the broadcasters to seek concessions in order to offset what would otherwise be an unacceptable commercial risk. It is significant that both the BBC and the ITCA companies have not displayed any great enthusiasm for the proposed DBS concept which appears to be seen more as a solution to help the Government.

The joint venture should only be allowed to proceed if it is commercially viable on its merits. Any other basis will block alternative options and is likely to be a continuing source of trouble for the Government.

The Industrial Case

Satellite - There has been an understandable attempt to find a satisfactory solution involving Unisat. The industrial considerations have all along been given more weight than the broadcasting and competition issues.

In terms of UK space activity, we do not consider that Unisat is a particularly important development for UK satellite technology. It is certainly not crucial, as Robin Nicholson's minute demonstrates.

If the Unisat consortium did collapse, we would expect the market to produce several alternative satellite options which would be acceptable to the broadcasters. Britsat is just one example which has not been considered on an equal footing with Unisat. A 1987 launch date for Unisat is doubtful and we would not expect the choice of satellite to be critical for the timing of a DBS service.

CONFIDENTIAL

MINADD

If Unisat did not proceed there would be a row over the £50 million which has already been committed. However, this would be a matter for the parties involved. The Government has no financial commitment to the DBS project.

Receiving Equipment - The more important industrial argument concerns the set manufacturers and several changes in recent years have reduced the earlier enthusiasm.

The original DBS concept was based on a 1986 launch and the acceptance of C-MAC as a pan-European technical standard. Neither of these premises will be fulfilled.

In addition the development of cable has significantly affected initial market assessments. The formation of projects such as that by Rupert Murdoch's News International which involves low power satellite broadcasting to cable head ends has further changed the picture.

The BBC are already thinking about the prospects for high definition television broadcast by satellite in the late 1980s or early 1990s.

In these changed circumstances, it becomes even more important that the broadcasters make an explicit commercial assessment of what is in both their short and long term interests.

The collapse of the joint venture DBS project would allow a period of re-assessment. Although in the short term such a collapse would be a matter of regret, in the longer term we are confident that alternative British DBS systems would be developed.

We do not consider, therefore, that the proposed DBS joint venture is the UK's last chance to enter into the potentially profitable and significant area of satellite broadcasting.

The Criteria for the Joint Venture

Given the position which has now been reached, we consider that the essential elements of a compromise solution should be:

1. to grant no concessions on the re-advertising of ITV terrestrial franchises in 1989

Flag E
The suggested discretionary system would in practice, as Lord Cockfield points out, be no different from a formal extension. The Government and the IBA would be under a moral commitment not to re-advertise the franchises of any of the companies involved in DBS.

To give the ITCA companies greater security for their terrestrial franchises would be inconsistent with our expressed intention that any DBS project should be a free-standing, independent entity.

Nevertheless we do understand the concerns of the ITCA companies to ensure continuity of the DBS project through 1989. If transfer of the equity commitment to DBS at its market price is unacceptable to the companies in the event of a franchise change, continuity could still be ensured by a requirement on any new competitor for a terrestrial franchise to accept the DBS commitment. As perhaps only one or two franchises would be changed, the amount of upheaval in the DBS project would be minimal.

2. to limit the life of the joint venture to seven years, the life of the satellite system

A joint venture is itself a significant compromise which will expose the Government to criticism of suppressing competition to the benefit of the existing players in the game.

It is therefore essential that the life of the joint project should be limited to seven years and that there should be no possibility at the outset of any extension. After seven years the joint venture company would be broken up, allowing the broadcasters separately to compete with others for all the available DBS channels.

3. to ensure third party participation in the joint venture and suitable opportunities for independent programme makers

The intention to allow non-ITCA private sector companies to participate in the joint venture is an important step in ensuring that third parties are given some opportunity to become involved in DBS at an early stage.

However, third party involvement should also be seen as a test of the commercial soundness of the venture and should not be bought at the price of further concessions ie an extended life of the joint venture.

It will also be important to ensure that opportunities are open to independent programme makers to supply programmes to the joint venture. This applies particularly if the BBC with 50% of the project wishes to exercise an understandable degree of editorial control.

We are also unconvinced of the need to allow the BBC a 50% share in the joint venture. A more equitable split

amongst the BBC, the ITCA companies and third parties would help to spread the risks.

4. to make clear that the Government will in no circumstances underwrite the costs of either Unisat or the joint venture

It is important that all parties are convinced of the Government's determination on this point. Not only are we not prepared to commit public resources to DBS but we must ensure that the risks as well as the potential rewards are fully accepted by the joint venture partners.

Recent experience has not been encouraging with Unisat unwilling to share any of the risks involved.

A joint project will not be easy to manage and there are likely to be considerable tensions amongst the parties involved.

The BBC has been informed that there would not be recourse to the licence fee except in the event of a collapse of the project. In such a case, the Government would not meet the liabilities of the project nor would the licence fee be increased. In practice, we are doubtful that the BBC really expect the Government to allow existing services to suffer and are sceptical that they are taking a realistic view of the risks of DBS.

It will also be necessary to state clearly that DBS expenditure would not be offset against the ITV levy. This would amount to indirect financing of the project and a transfer of risk to the Government.

On the other hand, we see no objections to allowing advertising on at least one of the channels from the outset, if this helps to improve the finances of the joint venture.

5. to minimise the period of protection for the joint venture

Provided that satisfactory conclusions are reached on the above four points, there could be a case for postponing competition between UK DBS services in the early years of the joint project.

We are not entirely convinced of this argument. Nevertheless, if some degree of protection is felt to be necessary, this should be kept to the minimum.

Any future competition should certainly be able to begin broadcasting at the end of the seven year life of the joint project. This would require advertising the five DBS

CONFIDENTIAL

- 5 -

frequencies in about year 4 of the joint venture ie about 1991/92.

There is also a case for allowing earlier competition on the grounds that even a few years start puts the joint venture in an extremely strong market position.

Earlier competition should also be considered if DBS reaches its commercial break even point sooner than current assessments of market demand predict.

Conclusions

Our best chance of realising the important broadcasting and technological opportunities which DBS is likely to provide is through a soundly based commercial project.

Both ITCA and the BBC in their different ways appear to be seeking Government guarantees and concessions which would not be necessary if they indeed do have a commercially based project.

We recommend that the joint venture concept should only be supported if it is acceptable to the partners on its intrinsic commercial merits.

This requires

- no concessions on the re-advertising of ITV terrestrial franchises in 1989
- limiting the life of the joint venture to seven years
- third party participation
- acceptance that the Government will in no circumstances underwrite the costs of the project
- minimising the period of protection for the joint venture before open competition is allowed.

If these conditions are unacceptable to the partners, we do not consider that a collapse of the project would prejudice the longer term prospects for satellite broadcasting in the UK. It is likely that alternative UK DBS systems will emerge.

A collapse would probably mean the end of the Unisat consortium. However, we do not believe that Unisat is crucial for longer term DBS prospects nor do we consider that Unisat is essential for the development of UK space technology.

DAVID PASCALL

CONFIDENTIAL

MINADD