

PO-CH/NL/0218

PART A



Part - A.

**CONFIDENTIAL**

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COMMERCIAL - IN - CONFIDENCE

Begins: 24/3/88.  
Ends: 19/10/88.



PO -CH /NL/0218



PART A

Chancellor's (Lawson) Papers:

BRITISH SATELLITE  
BROADCASTING AND  
TERRESTRIAL TELEVISION

Terrestrial Television

NL/0218

-CH

PO

PART A

Disposal Directions: 25 Years

13/9/95.



Accept - Post Washington / Regrets?

Julie  
25/3.



British Satellite Broadcasting Ltd.,  
Park Lane Suite,  
14 Old Park Lane, London W1Y 3LH  
Telephone: 01-409 0303  
Facsimile: 01-499 0671

GKN.  
930 2424.  
Morning.

24th March 1988

*Viggo's Appeal  
done from*

The Rt. Hon. Nigel Lawson, MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3AG.

11.30am:  
Tues.

Graham Grist  
+ Anthony Simonds-Gooding

Dear Nigel

May I, with one or two of my directors, come and talk to you and brief you about the progress of British Satellite Broadcasting?

We are entering rather a critical stage in its development and, as possible changes are contemplated by Government in Broadcasting ecology, I want to ensure that senior ministers have the opportunity of a direct input.

We are creating the first-ever entirely privately-funded D.B.S. station. It is a relatively high-risk project. We have raised the first tranche of £225 million to finance the purchase of two satellites and put a management team together but we now need at least a further £400 million from the market generally before the launch of the three channels in the last quarter of 1989. The present uncertainty in the structure of Broadcasting is causing concern to our founders and initial investors.

May I contact your office to find a suitable date?

*Maurice Pridmore*  
*Trevor*

Sir Trevor Holdsworth



RESTRICTED

BF 1/4



FROM: MISS M P WALLACE  
DATE: 28 March 1988

MR BOLT

cc PS/Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr H Phillips  
Mrs Case  
Mr Burr

**BRITISH SATELLITE BROADCASTING: LETTER FROM SIR TREVOR HOLDSWORTH**

... The Chancellor has received the attached letter from Sir Trevor Holdsworth, asking if he would agree to a meeting to discuss the progress of British Satellite Broadcasting, against the background of decisions about the future of broadcasting. I should be grateful for advice, as soon as possible, as to whether the Chancellor should agree to a meeting.

MOIRA WALLACE

WALLACE  
TO  
BOLT  
28 MAR





British Satellite Broadcasting Ltd.,  
Park Lane Suite,  
14 Old Park Lane, London W1Y 3LH  
Telephone: 01-409 0303  
Facsimile: 01-499 0671

24th March 1988

The Rt. Hon. Nigel Lawson, MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3AG.

*Dear Nigel*

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May I contact your office to find a suitable date?

*Mine's sincerely  
Trevor*

Sir Trevor Holdsworth



FROM: C W BOLT

DATE: 30 MARCH 1988

1. MRS CASE *note at end*

2. PS/CHANCELLOR

cc PS/Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr H Phillips  
Mrs Case  
Mr Burr (o/r)

*Ch/MISC 128 due to meet again to decide  
or at least begin deciding  
on additional services on 21 April*

*I understand. Easier, and more useful,  
for you to see them before then. Shall we fix?*

*now 30/3*

BRITISH SATELLITE BROADCASTING (BSB): LETTER FROM SIR TREVOR  
HOLDSWORTH *OK*

Sir Trevor Holdsworth has written to the Chancellor asking if he would agree to a meeting to discuss the progress of BSB. Although the main departmental interests lie with the Home Office and DTI, we recommend that the Chancellor should agree to a meeting.

2. BSB has been awarded the franchise for the UK direct broadcasting by satellite (DBS) service, due to start transmission in autumn 1989. They will provide four services on three channels; it has been agreed that the franchise for the other two channels available to the UK will not be awarded until BSB has been on-air for three years. However, no similar commitment was given in respect of franchises for other television services, and BSB are concerned in particular about the effect that a fifth UHF channel would have on their operation. A fifth UHF channel could be started at a relatively small cost to broadcasters and viewers; BSB on the other hand has had to raise £225 million already, and will have an estimated maximum cash flow deficit of £600 million after two or three years' operation. While DBS offers potentially large profits once the audience base has been built up, the total costs are still very large. (It is partly for this reason that the DBS franchise runs for 15 years, compared with 8 years for terrestrial ITV channels).

BOLT  
TO  
PS/CX  
30 MAR



3. Sir Trevor's main concern is likely to be the impact of new terrestrial services on BSB. If such competition emerged, it is possible that BSB would not become operational. He may also wish to touch on the share offer which is planned for next year (in advance of the start of broadcasting, rather than following it as originally intended). There have been press reports that BSB will offer free receiver dishes to subscribers, following the example of the Eurotunnel share offer. A further possible topic is the proposal for a subscription service, including possibly some 'pay per view' programming.

4. This would be one of a series of meetings between Ministers and BSB: Sir Trevor and his colleagues met the Home Secretary and Mr Renton a few weeks ago. Although it is clearly not possible to be specific about decisions on additional television services, and hence to allay Sir Trevor's main fears, the Chancellor would nevertheless be able to reassure Sir Trevor about the Government's strong support both for the expansion of the broadcasting market that BSB's services would provide, and for a share offer which appeals to individuals as well as institutions. If the Chancellor is able to find time to meet Sir Trevor and his colleagues we would recommend that he agrees to such a meeting.

21-25/4

pp Pinkley

C W BOLT

You may like to consider the timing of such a meeting in relation to the next stage of work which should clarify the position on additional services.

AF 2 30/3



## Plans for TV satellite stay up in the air

Barry Fox

SETBACKS in space and confusion over technical standards are jeopardising Europe's grand plan for satellite broadcasting to homes.

The West German government now admits that TV-Sat, the first direct broadcasting satellite launched in Western Europe, is a write-off. Even before TV-Sat was abandoned, Britain and the rest of Europe were arguing about the transmission standards for satellites in the future.

TV-Sat was launched last November and should have been broadcasting four channels of television direct into West German homes. One of the solar panels failed to open, and this obstructed the aerial which receives signals from the ground for retransmission.

Ground engineers tried to free the panel by turning the satellite towards the Sun, to heat and expand the metal. They also tried to shake the panel free. A final attempt this February failed.

West Germany shared the cost, of around £170 million, with France, which will try to launch TV-Sat's sister satellite, TDF-1, later this year. The failure of TV-Sat, and the need to postpone the launch of TDF-1 while the design is checked for faults, has proved a blessing in disguise. Delays in the production of microchips have meant that there are still no receivers available.



British viewers face a long wait for Euro programmes

ish Satellite Broadcasting (BSB) three-channel service, which will be launched in autumn 1989. D-MAC can carry a stream of data at a rate of 20.25 megabits per second along with the pictures. This is enough for eight high-quality sound chan-

nels or large quantities of business data. The D2-MAC system, adopted by other European countries, carries only half the data—10.125 megabits per second. Disagreement came to a head at a conference in Wembley earlier this year.

In a statement, 10 programme providers, including CNN, Premiere, Screensport, Sky and Super Channel, said that they want to use D-MAC and are "concerned" that some people are still debating transmission standards "as though it remains a live issue". They say the rival D2-MAC system is "unsuitable", adding that if MAC receivers are not available in time for transmission, they will use the old PAL system—not D2-MAC.

European manufacturers, however, are equally adamant that it is a live issue. Peter Groenenboom, managing director of Philips video display division, is blunt: "No one has yet announced firm plans to produce D-MAC sets. It takes two years to get from the final specification to the high street. The case for going to D2-MAC seems overwhelming."

Philips' lack of confidence about D-MAC is particularly revealing. Mullard, a subsidiary of Philips, is working with Plessey and Nordic VLSI to develop a set of five chips that will cope with D-MAC as well as D2-MAC. The first chip samples are not expected until the middle of this year. This fuels the idea that there will be no sets capable of receiving D-MAC transmission until well after BSB has started broadcasting next autumn. □

## 'Soaked' nets keep mosquitoes at bay

BETTER ways of protecting people from mosquito bites are emerging as researchers working in Tanzania revitalise an old technique. The technique which involves soaking mosquito nets or other fabrics in the pyrethroid group of insecticides, should help the fight against the diseases carried by mosquitoes.

The Allies used nets soaked in DDT during the Second World War, but the method became less popular during the 1950s and 1960s when the emphasis was on trying to eradicate mosquitoes.

The development of synthetic pyrethroids, which started in the 1960s, provided the impetus to reassess the old technique, especially at a time when international policy shifted in favour of finding better ways to stop mosquitoes from biting people. Pyrethroids are synthetic analogues of pyrethrin a natural compound found in species of African daisies.

According to one member of the team in Tanzania, Joe Lines, soaked nets kept the mosquitoes out even when the nets were torn and has been used for five months. The researchers concluded that the nets needed to be treated only every six months.

Another trial showed that children sleeping without nets received fewer bites when they slept near children who were under treated nets than they did when there were no nets in the vicinity. The most likely explanation is that the insects landing on the treated nets were killed before they

could land on the unprotected children.

Cost is still a problem because the nets are expensive: equivalent of a month's wage in Tanzania. But Lines has found that a curtain made from a stiff fibre called sisal hanging round the bed works quite well if it is treated, and it costs very little. The danger of insects becoming resistant to many of the insecticides is less easy to solve. One possibility is to treat the nets with a mixture of insecticides, for example, pyrethroid with carbamate. They will need to develop compounds of different chemical classes that can decay at a similar rate. □



Insecticides make nets more effective

## Jerry's electronic end

EAT YOUR heart out, Tom. And throw away that spring-loaded mousetrap. Last week a British company unveiled what it claims is the hi-tech answer to unwanted intruders of the Jerry variety.

The day of the electronic mousetrap has dawned, according to Rentokil, the pest control firm. The company has found a way of using the technology of conventional burglar alarms to detect and trap small rodents. The system, called "mouse alert", uses carefully sited sensor boxes designed to appeal to inquisitive mice. The boxes are connected by cables to a control panel. Lights corresponding to each box indicate the presence of a mouse. The sensor box can be replaced by a special trapping box, and the animal can be destroyed without using chemicals. The sensor is triggered by two infrared beams, so only an object the size and shape of a mouse sets it off. A double-beam configuration is used so that a spider's web, for instance, could not set off the alarm.

Rentokil has designed the system specifically for sensitive premises such as computer rooms, animal research laboratories and food production lines where mice could wreak havoc or where traditional chemical methods of control are unacceptable. □



## Defence ministry passes on secrets of nitration

Lionel Milgrom

BRITAIN'S chemical industry could soon take advantage of military technology that will speed up production of pharmaceuticals, dye stuffs, pesticides and explosives. Traditionally, the industry has made these compounds with a mixture of concentrated nitric and sulphuric acids called a nitrating reagent.

Now the Ministry of Defence's chemists at the Royal Armament Research and Development Establishment at Waltham Abbey, in Essex, have perfected the large-scale synthesis of a powerful nitrating reagent called nitrogen pentoxide. The technology is being licensed, for civil applications, by Defence Technology Enterprises, a company set up to transfer technology from the MoD to industry.

Nitration is one of the most important reactions in organic chemistry. This is because so many processes depend on the introduction of a nitro group ( $\text{NO}_2$ ) into a molecule. Explosives, for example, have several nitro groups, which make the molecules highly unstable. Introducing a nitro group into a molecule also gives it a "synthetic handle" which chemists can use to synthesise other useful compounds, such as pharmaceuticals, pesticides and dye-stuffs.

Chemists have known about the nitrating power of nitrogen pentoxide for more than a century. It will do everything, and more, that nitric-sulphuric acid mixtures can do, but faster, at much lower temperatures, and without the need for sulphuric acid. Nitrogen pentoxide can also be used in solvents that are not based on water, so that molecules that are very sensitive to water can be easily nitrated. The problem has been to get enough nitrogen pentoxide to do the kind of large-scale chemistry that the industry requires. This is because nitrogen pentoxide is difficult to obtain in a pure form, decomposes easily at room temperature and takes up water very readily—to form nitric acid.

Now the chemists, led by Greville Bagg and Peter Golding, have solved these problems. They used an electrochemical cell, divided in two by a semipermeable

membrane. Two electrolytes, both based on nitric acid, are continually flowing through the two halves of the cell. The nitric acid is split, by the electric current passing between the electrodes, into nitrogen pentoxide and water. The water is separated by the membrane, so that it cannot recombine with the nitrogen pentoxide to reform nitric acid. Another oxide of nitrogen, dinitrogen tetroxide, combines with the water in the other half of the cell, to regenerate nitric acid. The nitrogen pentoxide is extracted by being frozen. The MoD's chemists can produce it by the kilogram.

It is still too early to be sure how economic nitrogen pentoxide will be, compared with the traditional nitrating process. Nitrogen pentoxide produced this way is four to five times more expensive than the nitric acid used to make it. Also, the cost of the process plant is likely to be high because it is produced in severe conditions, but no higher than conventional nitrating plants where harsh environments are also necessary.

Some of this cost will be probably offset by economies in reaction times and temperatures, and by the increased purity and yields that will result from using nitrogen pentoxide. □

## Computer rescues 'noisy' classics



Ravel: a new lease of life

PHILIPS has released compact discs of historic recordings of music which have been salvaged using a new computer system called NoNoise. The system, developed by Sonic Solutions of San Francisco, can remove surface noise and irritating clicking and scratching sounds from old tapes and discs.

To prove the point, Philips has brought out recordings from as early as 1928 of Maurice Ravel and Sergei Prokofiev conducting their own works. The recordings were so poor that no record company could reissue them on compact disc.

Conventional cleanup uses analogue techniques, while NoNoise is digital. The original sound is converted into digital code and stored on hard discs with a total storage of 1400 megabytes, enough for two hours of digital stereo. To remove the clicks, the computer identifies and slices out transient noises. It then synthesises a brief burst of sound to bridge the gap.

Unwanted background noise, such as hiss, is removed by the computer which analyses the sound from a short length of the recording where there is no music. The sound spectrum of the background noise is split into 2000 separate frequency bands, and each one is measured. This produces an audio "fingerprint" of the noise.

The next step is to split the music recording into 2000 bands and compare them with the fingerprint. When unwanted noise dominates the music, it is removed. When music dominates noise, it is left untouched.

The computer would have to make 53 million separate computations every second for it to work in real time, and even a minicomputer cannot work fast enough. So the system works overnight, taking 8 or 10 hours to process one hour of music.

Record companies pay Sonic Solutions \$85 per minute of recorded sound processed. But a cheaper system is currently being developed in Britain at the National Sound Archive. CEDAR (computer-enhanced digital audio restoration) also removes clicks but uses a different trick to get rid of background noise. It compares two different versions of the same original sound, and continually chooses the cleanest signal at any given moment by either tracking a mono groove with a stereo pickup, or, if two alternative pressings of the same record are available, comparing the same music played from both. □

## Fujitsu grows single-crystal superconductor

THE LATEST star performer among the ceramic materials which become superconductors at relatively high temperatures looks even more promising than originally expected (*New Scientist*, 4 February, p 24 and 10 March, p 34).

Researchers at Fujitsu Laboratories, a subsidiary of Japan's largest computer manufacturer, Fujitsu, say they have discovered a way of making the superconductor into a film one-third of a micrometre thick—the thickness of a single crystal. The superconductor is a compound of bismuth, strontium, calcium, copper and oxygen.

The fact that it has been spun into a single-crystal film raises hopes that the new ceramic materials can be used in micro-electronic components for a new generation of very large-scale integrated circuits.

It is important for the material to be single-crystal because in a single crystal, the material can carry a higher current before it

loses its superconductivity.

The bismuth group of superconductors are a Japanese discovery. They were announced earlier this year by Hiroshi Maeda and his team at the Institute of Metallic Material Research at Tsukuba. Bismuth compounds are potentially easier to turn into practical devices than the first high-temperature superconductors which caused a scientific sensation when they were discovered at IBM's Zurich research laboratories.

The Fujitsu researchers said that they used newly developed equipment to grow the crystal. The company plans to use bismuth superconductors in the race to build a superconducting quantum interference device (SQUID) capable of measuring tiny changes in magnetic fields. This SQUID could well be important as a very sensitive switch in some integrated circuit device of the future. It could also be used in magnetic resonance imaging. □



BSB ON JONSCHER

Ch/ Arrived after this morning's meeting in a fraid.  
You are seeing this lot, including Simonds Gooding on 4 May.



British Satellite Broadcasting Ltd.,  
Park Lane Suite,  
14 Old Park Lane, London W1Y 3LH  
Telephone: 01-409 0303  
Facsimile: 01-499 0671

A. J. Simonds-Gooding  
CHIEF EXECUTIVE

\*

*NOR v. Channel 4.  
I avail to Bums  
MPS on Tues 3 May 29/4*

Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
The Treasury  
Parliament Street  
LONDON SW1

CH/EXCHEQUER	
REC.	29 APR 1988
ACTION	Mr BARR
COPIES TO	PS/FST
	Mr MONCK
	Mr CASE
	Mr PHILLIPS
	Mr BOLT

28 April 1988

✓  
29/4

Dear Chancellor,

The recent Booz Allen Report, for a prominent group of advertisers, on 'The Economics of Television Advertising in the UK' has generated a good deal of Press interest. With the benefit of technical advice from our own consultants, the Henley Centre, we have prepared the attached evaluation of the Report and of the possible effects of taking the course which it advocates.

I would summarise the argument in our paper as follows:

- the BAH analysis of the present state of the television advertising market is **unsound in several important respects**. These flaws make it an unreliable foundation for policy.
- **BSB would echo the criticisms of the ITV advertising monopoly and the separate problem of restrictive practices**. Indeed these issues were amongst the reasons for the Government's decision to clear a path for DBS services as the principal source of competition for the existing duopoly.



- the analysis of the likely effect of a Fifth Channel in the BAH Report is suspect. It makes assertions about the likelihood of a new Fifth Channel's audience being taken differentially from the BBC which it is not possible to substantiate. The experience of Channel 4 suggests that advertising costs may rise because of a dilution effect whereby advertisers have to advertise in more places to reach the same audience. Two answers can be suggested to this: advertising on the BBC or giving a fair run to the new media. The first course delivers the advertisers the audiences they want but Ministers have, rightly, found that it is in the interests of viewers to maintain a diversity of sources of funding for broadcasting. The second course, which assigns a key role to BSB, is attractive because we are expected to be rather better at segmenting the market and at helping advertisers to reach their target audiences more effectively.
  
- were a Fifth Channel to be introduced prematurely it could raise significant question marks over the ability of BSB to become established and to further what we take to be the objectives of Government policy in:
  - extending viewer choice by the creation of three new national channels with distinctive programming remits;
  - increasing competition for advertising - we expect to sustain £250 million in losses over three years in order to establish our advertising services;
  - ensuring an effective UK regulated source of quality satellite programming;
  - introducing subscription and pay per view as major sources of finance for broadcasting; and



- providing a new source of business for independent producers and of competition to exert pressure on existing broadcasters to end restrictive labour practices;
  
- the opportunity cost of introducing a fifth terrestrial channel on UHF rather than concentrating development on the higher frequencies used by DBS services needs to be addressed.

The net result of introducing a Fifth Channel before BSB has had an opportunity to establish itself could be to reduce competition for the medium to longer term in return for an uncertain short term benefit for 70% of the country.

I hope you will find the attached paper of use in your deliberations. On other occasions we have set out the reasons why a Fifth Channel financed by subscription would jeopardise the locomotive for the whole BSB venture; that remains our view. However, we believe the arguments against the premature introduction of an advertising financed terrestrial channel are also powerful.

I am writing in similar terms to the Home Secretary and to the Secretary of State for Trade and Industry.

Yours sincerely



p.p. Anthony Simonds-Gooding



BSB's Response to the Booz, Allen and Hamilton Report -

'The Economics of Television Advertising in the UK'

The Booz, Allen and Hamilton Report sets out a well presented and stimulating argument about the penalties for viewers, advertisers and the economy of the present structure of television broadcasting in the United Kingdom. A growing appreciation of the weaknesses of the duopoly and developments in technology, are creating the conditions for the development of a more competitive broadcasting environment - bringing with it greater consumer choice, more opportunities for advertisers and pressures for improved efficiency. BSB welcomes these developments and expects to be a critical engine in the transition to a more lightly regulated and competitive world.

We understand the frustration, evident in the Report, caused by the ITV companies' monopoly over the sale of advertising. The Report also makes legitimate criticisms about the inefficiencies which the lack of competition and over-heated advertising demand have helped to engender. That the ITV companies accept the justice of some of this criticism is evident in the way in which a number of them are, belatedly, beginning to tackle problems of over-manning and restrictive practices. We should not underestimate the role of Government policies; the shadow of impending competition from BSB; and of independent producers in bringing about these changes. Although in places the argument is overstated we have sympathy with the generality of the analysis of the problem contained in the Report, although we find its conclusions unsafe.

Apart from setting out some interesting data the Report could be seen as rehearsing an argument rather than being a wholly objective assessment of the broadcasting and advertising markets. It is difficult in places to



evaluate the Report in detail because, for understandable reasons, not all the data is included. But at crucial points in the argument, assumptions and assertions are made without there seeming to be adequate supporting evidence. In preparing this response BSB is grateful to have been able to draw upon the advice and expertise of the Henley Centre. However, BSB takes sole responsibility for the commentary which follows.

We have sought to address the issues raised in the Report in the context of five questions:

- i) Is the Report's analysis of the present situation in the UK television advertising market sound? If it is not this must call into question some of the projections and recommendations which appear later in the Report.
- ii) Is a Fifth Channel introduced from 1991 the answer to an advertiser's prayer?
- iii) What will the impact of British Satellite Broadcasting be on the UK broadcasting and advertising industries and for consumer choice?
- iv) What would be the impact of the BAH recommendation for a Fifth Channel on BSB's ability to deliver a major change in the UK broadcasting environment; and
- v) What would be the opportunity cost of a Fifth Channel?

1) Is the analysis in the Report sound?

The Report's analysis of the present television advertising market may be over-stated or misleading in the following respects:



- i) UK television advertising expenditure is high as a proportion of GDP but it is not established beyond doubt that this is because of market distortions; given that the UK has the second highest level of minutage and the highest per capita level of television viewing in Europe.
  
- ii) The international comparisons for peak time costs refer to 1986 and yet the exchange rate used to convert them relates to 30 March 1988. It is unusual in making such comparisons to use the exchange rate for a single day but, leaving this aside, on the date chosen Sterling was especially strong, so the prices for the United States and Germany appear lower than they were in 1986. Simply using a 1986 average, for example, would increase the US figure by more than 25%. Much has also changed in the United States over the last two years with the networks suffering a significant loss of audience to cable operators; there has also been an unprecedented rise in costs of over 15% per annum over the period. The price of advertising in the Federal Republic of Germany, as is conceded later in the Report, is held artificially low by Government regulation. Furthermore the block nature of advertising in Germany makes it difficult to make exact comparisons with Britain.
  
- iii) In Chapter 3 it is suggested that advertising contributed 'about 2 per cent' to price inflation in packaged foods and household products during the last two years. This assumes that the companies included in the Survey were typical. Furthermore, this is an allocation of sources of inflation subsequent to the event; it does not imply ex ante causation. Companies may have chosen to pay higher prices for advertising because they knew that other costs were rising slowly: if this had not been the case a different decision on resource allocation



might have been made. We also think that the choice of dishwashers and knitting machines rather untypical for seeking to illustrate general points about alleged sales losses through high advertising costs: other factors, such as smaller than average kitchens in the UK, seem potentially just as relevant to the sale of dishwashers. These factors are not explored.

- iv) The relative growth in 'own label' products can be attributed to a number of factors, not just advertising considerations (e.g. many retailers have rationalised the number of product lines and brands which they stock). Contrary to the implication in the Report prima facie there is no reason to judge the growth of 'own label' sales to be either a desirable or undesirable development.
- v) No assessment is included of the impact on advertising prices of the Equity dispute at the time of the launch of Channel 4. The decline in local/test advertiser messages on Channel 4 mentioned in the Report is due in significant part to the resolution of this dispute.
- vi) The claim that advertising costs have prevented the launch of new products is weakened, although not necessarily disproved, by the fact, recorded in the Report, that the majority of companies predict an increase in new product launches over the next five years.
- vii) There is also a central assumption that advertisers perform perfectly and only fall down on the job because of the leaden-footed television companies; for example, the ITV companies are blamed for not bringing about a different advertising mix on



Channel 4 because of the use of their normal sales force. There may well be a case for Channel 4 airtime to be sold separately, but if the phenomenon identified has arisen for the reasons suggested in the Report, then it is equally the responsibility of advertisers and their agencies for not having explored such opportunities for segmentation. Although it is most certainly true that some advertisers have helped to keep costs down by 'improved planning techniques' there are others who have not taken advantage of opportunities when television companies have invested in providing more robust data about audience sub-groups.

We agree that the ITV companies' monopoly over advertising sales creates distortions and is undesirable. The advent of at least two BSB channels financed by advertising from the Autumn of 1989 will be an important breach in the monopoly. This will grow more significant as BSB's penetration increases into the 1990s. Although we have sympathy with the sentiments set out in the Report, on a number of significant points its arguments do not seem robust against even fairly cursory probing. It would seem perilous to put a great deal of store by the Report's findings and projections, when its foundations are so shaky.

2) Is the Fifth Channel the answer to an advertiser's prayer?

Although inefficiencies within the ITV companies have economic penalties, including a non-optimal use of resources and inflating costs for the BBC, independent producers and, arguably, the entertainment industry, they do not play a significant part in inflating advertising costs, which are a function of over-heated demand. Thus the two issues should be disentangled and are amenable to attack in different ways. BSB would hope to be a major part of the solution to both problems. But we return to this issue below.



It is important to determine what the direction of causation is between advertising expenditure and the supply of advertising airtime. If restrictions on the supply of time relative to demand are the cause of high prices then an apparent solution is to increase that supply. This could be done by a further increase in minutage, at least until BSB becomes available. However, substantial increases in the recent past seem to have had no discernible effect on price and, beyond a certain level such increases may act as a disincentive to viewers. A central problem has been the inability of the ITV companies to raise their game and to produce programmes of the quality desired by viewers.

The Report advocates, without proving each step of its case, that the answer lies in the creation of a Fifth Channel from 1991 supported by advertising. But the increases in supply will only have the effect desired if demand is determined independently of supply. If, instead, an increase in supply causes an increase in demand, then the effect on prices is unpredictable and will depend upon whether the extra demand thereby generated is less than the increase in supply itself. The probability that increased supply may generate increased demand is accepted in the Booz, Allen and Hamilton Report. The rationale is explained by the Henley Centre as follows:-

'Advertisers are not interested in the amount of air time as such but in how many viewers in their chosen target audience they will reach. A proliferation of channels dilutes the potential audience on any one channel and means that the same message has to be broadcast on a number of channels, thereby increasing the demand for advertising .... The high number of stations available to the average household in the USA, for example, leads to a high percentage of GDP being spent on (television) advertising ... The fact that



Channel 4 has effectively taken its audience away from ITV rather than the BBC supports this view of the dilution effect on advertising on any particular Channel if another one is opened up. In order to reach the same number of prospective customers, advertisers have been obliged to spend on both ITV and Channel 4.'

The Report does not provide an answer to the question 'how many more channels/more airtime would have to be created before supply could be confidently expected to outrun demand'?

In fact the most reliable means of achieving this is indicated in Chapter 2 of the Report when it notes that:

'Not only is ITV's audience share falling, but the composition of the audience is changing; it is increasingly being accounted for by women, older age groups, and groups of a lower socio-economic profile. Even the appeal of ITV's most popular programmes is concentrated among the older lower income groups, creating inefficiency for advertisers aiming at other more targetted groups. The loss of high income viewers has resulted in a situation in which ITV has an audience substantially less attractive to advertisers than that provided by the BBC.'

The analysis in the Report could, thus, sustain a narrow economic argument for putting advertising on the BBC. Conversely it is far from clear that a Fifth Channel is the Holy Grail for which the Report's sponsors are seeking. The Government, on the basis of the Peacock Committee Report, has in the interests of viewers, rightly decided to maintain a diversity of sources of broadcasting funding and to exclude advertising from the BBC. BSB is a further reflection of this commitment



to diversity; through our mixture of channels financed by a mix of advertising and subscription.

It is far from clear that either of the models suggested for a Fifth Channel would achieve the audience reaches set out in the Report, or why they should take differentially from the BBC in the manner suggested. The figures are described as BAH's 'best estimates', but on what basis are these 'estimates' constructed? It seems probable that the best way of breaking the ITV monopoly and increasing airtime without causing an explosion of demand chasing exactly the same, but more thinly spread, audiences is to look to the new media. BSB will have a greater ability to reach target audiences than conventional channels.

3) What will the impact of BSB be on the UK broadcasting and advertising industries and for consumer choice?

Predictably we would dispute the marginal role assigned to the 'new media' in the BAH Report. BSB expects and intends to be a mainstream service, in competition with the four terrestrial channels. Because of the need for consumers to acquire new hardware it will take a while for our role to be built up but by 1995 BSB expects to be received in 7 1/2 million homes. The treatment of BSB in the Booz, Allen Report reads like an attempt to marginalise a potential political problem in the scheme to set up a Fifth Channel as quickly as possible. It contrasts with the findings of the NERA Report on the likely combined impact of the new media on ITV by the mid-1990s.

We would take issue with the arbitrary reduction of 35% of new media commercial impacts suggested by BAH which they attribute to:

'the lower value which advertisers have placed  
(based on overseas and limited UK experience)



on advertisements on such channels. This lower value is due partly to the higher minutage which such channels can carry, partly to the different socio-economic make-up of audiences (slightly lower) and partly to the unpopularity with advertisers of channels whose coverage is confined to a minority of the national audience'.

The experience cited is, indeed, very limited in the UK and BSB is not typical of new media either in Britain or abroad, being an IBA regulated, quality broadcasting service. We would expect to have a slightly up-market profile; no decisions have been taken about BSB's minutage and so BAH's assumptions about this are without foundation; and because of our stranded approach to programming we would expect to target groups currently poorly served by terrestrial services and to offer greater segmentation of audiences to our advertisers. We are intrigued by the reference in the report to its 'lower growth' scenario for new media projections representing, 'a consensus of industry forecasts' - no sources for such a view are cited.

In passing we would also venture the view that the Report's treatment of the impact of a Fifth Channel on press and magazine advertising is far too cursory. A substantial amount of total press advertising is, of course, local but to suggest that national advertising in the press is marginal - or that pressures on television advertising have not led some companies to look significantly to press campaigns - would be misleading.

In comparison with the attempt to marginalise BSB's significance, we see a central role for DBS services in:

- increasing and extending viewer choice by greater diversity of programming and taking on the duopoly;



- increasing competition for advertising (indeed we expect to invest £250 million over three years in order to establish our new advertising channels as a significant force;
- increasing value for money for advertisers; and
- reducing restrictive practices in the television industry.

4) What would be the impact of a Fifth Channel on BSB's ability to deliver a major change in the broadcasting environment?

In addition to the items listed immediately above, BSB will further the following elements of what we perceive to be the objectives of Government broadcasting policy:

- the introduction of subscription;
- the introduction of 'pay-per-view' as an important step in creating a genuine market for programming which gives consumers sovereignty;
- the development of additional broadcasting services wholly privately financed (the only European financed DBS project to achieve this);
- a major new market for independent productions;
- a UK regulated quality source of satellite programming;



The premature introduction of a Fifth terrestrial Channel would risk undermining BSB's ability to realise its potential as the new third force in British broadcasting envisaged by the Government at the time we were awarded our franchise. It would weaken our ability to deliver the full range of benefits set out above on three national channels - for the sake of an earlier than necessary introduction of a Channel with the potential only to reach 70% of the population. Furthermore, it is possible that such a Channel may not cover some parts of the country where advertising demand is potentially greatest. More competition in the short term may mean less potent competition and viewer choice in the medium to longer term.

The adverse impact on BSB could occur in one of four ways at a crucial point in the development of the enterprise:

- i) it may hobble our ability to achieve the penetration required to deliver to advertisers the necessary level of audience in the early years and, incidentally, prevent subscription becoming a widespread source of broadcasting finance;
- ii) it may weaken investor confidence;
- iii) it could lead consumers to postpone decisions about exploring the new media for some time while waiting to investigate the new services to be provided on a new Channel 5;
- iv) it would make it very difficult for the additional, unallocated DBS Channels 4 and 5 to be brought into use on a viable basis.

These seem large risks to take against a very uncertain return from introducing a Fifth Channel prematurely.



5) What would be the opportunity cost of a Fifth Channel?

A crucial question which has not yet been addressed in the public debates about a Fifth Channel is the opportunity cost involved; not only the impact on other services but also in terms of alternative uses of the frequencies involved. The spectrum used for DBS services is not, given the present state of technology, liable to be of use for purposes other than broadcasting. This is not the case with UHF frequencies which are already used, for example, for aeronautical radar and for radio astronomy. We note the view recently put forward by British Telecom that using more UHF spectrum for broadcasting is likely to prove a significant restriction upon the growth of new personal mobile communications and that there are fewer alternatives for mobile communications than for television. It may be that on wider policy and economic grounds the Government should concentrate the development of new broadcasting services at higher frequencies through DBS.

27 April 1988



NOTE OF PM MEETING

CONFIDENTIAL



10 DOWNING STREET  
LONDON SW1A 2AA

EXCHEQUER	
DATE	04 MAY 1988
TO	MR KERLEY
COPIES TO	PS/EST, SIR P MIDDLETON MR ANSON, MR MONCK MR PHILLIPS, MRS CASE MR SARR, MR BOLT MR CAVE MRS PUGH

14/5

From the Private Secretary

3 May 1988

Dear Philip,

BRITISH SATELLITE BROADCASTING

The Prime Minister met earlier this evening Sir Trevor Holdsworth, the Chairman of BSB. He was accompanied by Messrs. Simmons-Gooding and Grist.

Sir Trevor summarised the position reached in BSB's planning. They were on schedule to launch the satellites in August 1989 and hoped that programme transmissions could start the following month.

In further discussion the BSB representatives expressed their concern that conditions should be right when they come to raise the second main tranche of their financing. The £220 million they had already raised would cover the cost of hardware and the first few months programming. But during the course of 1989 they would need to arrange further financing of some £400 million to cover programming costs over the following 2-3 years. The business plan projected a position of cash balance by 1992 with the initial cash outlays being paid back by 1995. BSB's concern was that at the time of these financing discussions in 1989 they could point to a stable broadcasting policy framework. Specifically, they hoped that the Government would not make announcements about the allocation of extra-terrestrial channels on the 4th and 5th DBS channels until say 1992, with none of these channels being used until 1995. In short, while the BSB representatives insisted they were keen on a competitive environment, they wished to be protected from competition during their early years until their financing costs had been recouped.

In response the Prime Minister noted the BSB's comments but said she would give no undertakings. She urged BSB to take a positive view of the competitive advantages they possessed - for example having a 100 per cent 'footprint' and the relatively modest cost for customers of installing the small receiver dishes their services would require. She expressed confidence that BSB would be able to raise the second tranche of their finance.

CONFIDENTIAL



It may be helpful to record two other points which arose in discussion. First, BSB said that they were putting out more work to independent producers than any of the other broadcasting networks, and they claimed to be getting an extremely good response from them. Second, BSB explained that their decision to restrict suppliers of their dishes to three manufacturers represented what they saw as an appropriate balance between getting adequate competition while still giving manufacturers sufficient reassurance about the volume of sales to enable them to keep their prices low.

I am copying this letter to the Private Secretaries to other Members of MISC 128 and Sir Robin Butler.

Yours sincerely,  
Paul Gray

—  
PAUL GRAY

Philip Mawer, Esq.,  
Home Office





mp

Ch/ Lord Young's office rang to say he would like a short bilateral which we have fixed for after Special Shares. He wants to elaborate on the ideas he put forward at MSC 128 (extra DBS channels, I take it). Papers behind.

Do you want me to fit in?

Put up satellite  
for MSC 2 & Ch 4  
asks how many prop  
command TV channels  
+ 5  
= 3  
27/4



CONFIDENTIAL

~~BR 6/5  
in mtg folder~~

FROM: R D KERLEY

DATE: 3 May 1988

pmp

1. MRS CASE

At 2 3/5

2. CHANCELLOR

Ch/ See also note of  
PM's meeting  
on 3/5, behind mprwcc Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Burr  
Mr Bolt  
Mr Cave  
Mrs Pugh

BRITISH SATELLITE BROADCASTING (BSB) 4/5

You, along with the Financial Secretary, are due to meet Sir Trevor Holdsworth, Mr Anthony Simonds-Gooding and Mr Graham Grist, Chairman, Chief Executive and Managing Director of BSB at 3.30pm on Thursday 5 May. Mrs Case will also attend. BSB have also had recent meetings with the Home Secretary and the Secretary of State for Trade and Industry.

2. BSB have been licensed by the Independent Broadcasting Authority to provide four services of DBS transmission on three channels (one channel will feature a children's service as well as a subscription film service). BSB have so far raised £225 million to finance the purchase of two satellites and put a management team together and they will need to raise an additional £400 million before the launch of the three channels in Autumn 1989.

3. As is made clear in their letter to you of 28 April BSBs principal concern is with the Government's position on additional programme services and they are concerned that any decision to authorise additional terrestrial services would jeopardise their financial viability. They argue that a new UHF service achieving a significant degree of national coverage would be in direct competition with them and seriously affect their ability to attract the additional investment they need as well as the take up of their services.

4. The only specific commitment that has been given to BSB is that the fourth and fifth DBS channels will not be allocated until BSB has been operational for at least three years (this was less than the five years BSB had requested) ie until Autumn 1992. BSB are likely to argue that as a minimum the moratorium should apply equally to any new UHF services.

KERLEY  
TO  
CH/EX  
BRIEF  
3 MAY



5. BSB back up their case with a critique of the recent Booz Allen report on the economics of television advertising in the UK arguing that it is unsound and hence an unreliable foundation for policy. We do have, in fact, some reservations about this report, and do not consider it as thorough as, say, the subscription report. In particular we consider that there is some double counting in the estimated overall £1.5 billion cost of the ITV monopoly on advertising and that the sectoral analysis of future advertising demand is weakly based. Jonscher has, in fact, accepted that it is a projection rather than a forecast, and that it is probably conservative. These issues are being explored further by the Home Office. However, we do not believe that these criticisms invalidate the report's main conclusion, which is that the growth in demand for TV advertising will be sufficient to accommodate both a fifth terrestrial channel, and the three BSB advertiser financed services. We understand that the report's projections for satellite broadcasting growth are, in fact, slightly higher than BSBs own projections.

6. In the meeting it will be important to steer a careful path between on the one hand giving the impression that BSB will be protected indefinitely against competition from additional services, and on the other hand suggesting that the Government is so keen on promoting additional services that BSBs worst fears will be confirmed with potential investors being scared off. If BSB were not able to raise the further capital required it would mean the end to the immediate prospect of 3 additional channels with near universal national coverage which would be a considerable loss. However we certainly do not want to hold up additional services and then find out that DBS fails to provide a satisfactory alternative. (Note here the experience of cable which was given a protected position in the belief that it provided the best means of achieving new services but actually then failed to provide them on any significant scale).

7. Lord Young has, of course, recently suggested privately that there may be a case for moving BBC2 and Channel 4 on to the remaining two DBS channels and using the terrestrial wavelengths freed for additional services. Although BSB would not welcome the competition from the additional terrestrial channels these would only appear two years after BBC2 and Channel 4 moved on to DBS since there would be a transitional period with the two channels broadcast both terrestrially and by satellite. Thus the appearance of BBC2 and Channel 4 on DBS should, in fact, be a major boost to BSB since it would provide an added incentive for households to invest in the necessary reception equipment.



Whilst it will, of course, not be possible to raise this scheme with BSB it may be possible to get a feel for their reaction by asking them whether they see extra DBS channels as a help by means of increasing the diversity and hence attractiveness of DBS or a hindrance in terms of greater competition.

8. Other issues you may wish to discuss include:

(a) Pay per view and subscription

One of the BSBs channels is to be a subscription film channel and there have been reports that they have decided to incorporate a pay per view facility. You may wish to ask whether this in fact will be the case. BSB have high hopes for their subscription service which will be especially important to them since they will be relying heavily on the cash flow it generates in the first few years when they will still be in deficit. They may therefore be concerned that the BBC and ITV should not be given the power to carry subscription film services at night for downloading onto VCRs. [Not for use: MISC 128 on 17 December decided to take away the night hours from one of its channels and to allocate the night hours on the ITV channel to different contractors from daytime hours. Both the IBA and the BBC would be authorised to encrypt their signals and be empowered to charge subscriptions].

(b) Receiving Equipment

BSB has decided to allow only three manufacturers to produce receiving equipment in order to try and increase production runs and thus through economies of scale to keep the price down to a target of £200. This decision has been met with fierce opposition from the Electronic Equipment Manufacturers Association and the IBA are reported to be concerned.

*Behind* | There is also the issue of the transmission standard to be used (as reported in the 28 April New Scientist article). The Government decided to adopt the D-MAC transmission system for UK satellite broadcasting services (this offers a higher picture quality than the PAL system that is currently used for terrestrial broadcasting). This system can carry more information than its sister system D2-MAC which has been adopted by France and Germany. However many manufacturers (especially those on the continent eg Philips) are extremely sceptical of D-MAC (preferring



↙ What do we think?

D2-MAC) and they argue that the necessary technology, in particular the microchips, for D-MAC receivers will not be ready by the time BSB comes on the air. You may wish to ask BSB if they remain confident that the necessary technology will be in place by the time of their launch.

(c) Free Satellite Dishes

There has been press speculation that BSB will offer free or reduced price satellite dishes as an inducement to investors in its share floatation next year. You may wish to ask if this is, in fact, the case.

R D Kerley

R D KERLEY



Mr Kerley

cc Mrs Case  
Mr Burr  
Mr Bolt

BF in mtg  
folder tomorrow  
(Holdsworth)

We spoke. The Chancellor would be grateful if relevant points from this piece could be covered in his briefing for meeting with BSB.

mpw 3/5

## Plans for TV satellite stay up in the air

Barry Fox

France and Germany have said they will use different technology from Britain, dashing hopes for a single European transmission system. Both systems are variants of the TV system called MAC (multiplexed analogue components) developed for satellite by the Independent Broadcasting Authority in Britain.

Britain has adopted D-MAC for the Brit-

nels or large quantities of business data. The D2-MAC system, adopted by other European countries, carries only half the data—10.125 megabits per second. Disagreement came to a head at a conference in Wembley earlier this year.

In a statement, 10 programme providers, including CNN, Premiere, Screensport, Sky and Super Channel, said that they want to use D-MAC and are "concerned" that some people are still debating transmission

standards "as though it remains a live issue". They say the rival D2-MAC system is "unsuitable", adding that if MAC receivers are not available in time for transmission, they will use the old PAL system—not D2-MAC.

European manufacturers, however, are equally adamant that it is a live issue. Peter Groenenboom, managing director of Philips video display division, is blunt: "No one has yet announced firm plans to produce D-MAC sets. It takes two years to get from the final specification to the high street. The case for going to D2-MAC seems overwhelming."

Philips' lack of confidence about D-MAC is particularly revealing. Mullard, a subsidiary of Philips, is working with Plessey and Nordic VLSI to develop a set of five chips that will cope with D-MAC as well as D2-MAC. The first chip samples are not expected until the middle of this year. This fuels the idea that there will be no sets capable of receiving D-MAC transmission until well after BSB has started broadcasting next autumn. □

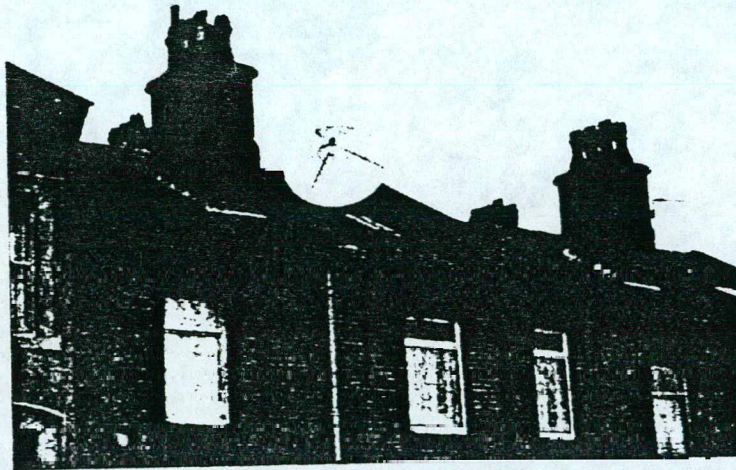
SETBACKS in space and confusion over technical standards are jeopardising Europe's grand plan for satellite broadcasting to homes.

The West German government now admits that TV-Sat, the first direct broadcasting satellite launched in Western Europe, is a write-off. Even before TV-Sat was abandoned, Britain and the rest of Europe were arguing about the transmission standards for satellites in the future.

TV-Sat was launched last November and should have been broadcasting four channels of television direct into West German homes. One of the solar panels failed to open, and this obstructed the aerial which receives signals from the ground for retransmission.

Ground engineers tried to free the panel by turning the satellite towards the Sun, to heat and expand the metal. They also tried to shake the panel free. A final attempt this February failed.

West Germany shared the cost, of around £170 million, with France, which will try to launch TV-Sat's sister satellite, TDF-1, later this year. The failure of TV-Sat, and the need to postpone the launch of TDF-1 while the design is checked for faults, has proved a blessing in disguise. Delays in the production of microchips have meant that there are still no receivers available.



British viewers face a long wait for Euro programmes

ish Satellite Broadcasting (BSB) three-channel service, which will be launched in autumn 1989. D-MAC can carry a stream of data at a rate of 20.25 megabits per second along with the pictures. This is enough for eight high-quality sound chan-



## CONFIDENTIAL

CH/EXCHEQUER	
REC.	27 MAY 1988 ✓ 27/5
ACTION	MR BOLT
COPIES TO	CST FST SIR P Middleton Mr ANSON, Mr Phillips Mr Burgin Mr Scholast Mr Spackman Mr Gane Mr Pugh Mr Surr Mr Tereby Mr Cropper

PRIME MINISTER

Ch/X seems sensible, and might reduce the amount of flak there will be *mpw 27/5*

### TRANSFER OF TERRESTRIAL TV SERVICES TO DBS

At the last meeting of MISC 128 you asked to be consulted if it was thought necessary to extend our consultations outside government beyond BSB.

2 Douglas Hurd and I have arranged to meet BSB on 7 June. Their attitude will be a crucial factor in determining the feasibility of the outline proposal I put forward and we shall be unable to work up soundly-based detailed proposals without their cooperation. In view of the commercial implications for BSB I do not believe they will be prepared to enter into any serious discussions with us without consulting their shareholders.

3 BSB's shareholders however include two ITV companies, and we must assume that once they learn of the proposal, word will very quickly reach the IBA, and no doubt the BBC as well. I believe therefore that Douglas and I should speak to both the BBC and the IBA as soon as possible after we have met BSB, provided, of course, that BSB's initial reaction is not wholly unfavourable. This will ensure that the initiative remains with us, and that our discussions are conducted on ground of our own, rather than the broadcasters' choosing.

4 I recognise that this course increases the risk of our ideas becoming public knowledge sooner rather than later, but this is a risk we have to run if we are to work up proposals which have a real chance of success. I believe that we can handle any press



interest adequately, provided that Douglas and I agree a common line, in advance of the meeting with BSB, emphasising the exploratory and tentative nature of the discussions.

X 5 As part of the working up of the general proposals which I put to MISC 128, I have been giving further thought to handling the withdrawal of Channel 4's and BBC2's terrestrial frequencies. An alternative to the fixed cut/off date I originally suggested might be a cut/off date specified by reference to dish penetration. Terrestrial transmission might cease either 12 months after dish penetration reached, say, 60% or after 7 years, provided dish penetration had by then reached a minimum of 40%. (At this stage the figures are purely illustrative.) My own view is that dish penetration will grow much more rapidly than the pessimists suppose, and that we should therefore be able to claw back the terrestrial frequencies fairly soon and start the new channels, advertising-financed and regionally-configured, that I think are needed. But this variant would give some comfort to the broadcasters that the viability of Channel 4 in particular would not be jeopardised by cutting it off prematurely from the market for its advertising. ✓ ?

6 As I believe MISC 128 recognised, there will no doubt be other variations on my original theme which will need to be considered in the process of developing a set of detailed proposals which meets our own requirements and is reasonably acceptable to BSB and others. I fully recognise that this means that the discussions which we have outside Government must be entirely without commitment until colleagues have considered the proposals, which I hope Douglas and I will be able to put forward as soon as possible.



**dti**

the department for Enterprise

7 I am copying this minute to the other members of MISC 128  
and to Sir Robin Butler.



D Y

May 1988

DEPARTMENT OF TRADE & INDUSTRY

The logo features the word "Enterprise" in a stylized, italicized font with an arrow pointing upwards and to the right. Above "Enterprise" is the word "the" in a smaller font, and below it is the word "initiative" in a smaller, lowercase font.





BF 3/6

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

1 June 1988

CH/EXCHEQUER	
REC.	01 JUN 1988 ✓
ACTION	MR BOLT
COPIES TO	CST FST
	S. R. P. MIDDLETON
	MR ANSON MR H. PHILLIPS
	MR BURGESS MR SCHOLAR
	MR SPENCER MR CAVE
MR BURR MR S. TUGH	
MR KERLET MR CROPPER	
MR SCASE	

*Dear Jerry*

2

The Prime Minister has seen your Secretary of State's recent minute on the transfer of terrestrial TV services to DBS. She has noted that there is no point in trying to change BBC 2 as the licence fee already pays for that channel. She feels, however, that Channel 4 could be different as she assumes we will let Channel 4 go independently of Channel 3.

I am copying this letter to the Private Secretaries to members of MISC 128 and Sir Robin Butler.

*Z*

*Andy*

(P. A. BEARPARK)

Jeremy Godfrey, Esq.,  
Department of Trade and Industry.

CONFIDENTIAL



CONFIDENTIAL

PR IN?



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	03 JUN 1988
ACTION	MR BOLT
COPIES TO	CST FT SIR P. MIDDLETON MR ANSON MR PHILLIPS MR BURNER MR SCHWAR MR SPACKMAN MR CAVE MR FURT MR BURR MR KERLEY MR CROPPER

From the Private Secretary

2 June 1988

*Dear Sir*

**TRANSFER OF TERRESTRIAL T.V. SERVICES TO DBS**

The Prime Minister has now had a chance to study further your Secretary of State's recent minute about which I wrote yesterday. She has commented that with regard to the Channel 4 and the IBA she thinks that we should first decide whether the channel should be independent of Channel 3 and then depending on that and on a satisfactory reply from Channel 4 (ie. that they would be willing to go for satellite) it could be offered - but not pressed upon - BBC 2. She has also asked what the consequences would be on the cost of the BBC television licence.

We discussed this on the telephone and agreed that it would be useful for your Secretary of State to discuss these issues at his next meeting with the Prime Minister.

I am copying this letter to the Private Secretaries of MISC 128 and Trevor Woolley (Cabinet Office).

*Z*

*Andy*

P A BEARPARK

Jeremy Godfrey, Esq.,  
Department of Trade and Industry

CONFIDENTIAL



CONFIDENTIAL

mp (revised)

FROM: C W BOLT  
DATE: 2 June 1988

1. MRS CASE AF 2/7/6  
2. CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Burgner  
Mr Spackman  
Mr Farthing  
Mr Waller  
Mr Cave  
Mrs Pugh  
Mr Cropper  
Mr Tyrie  
Mr Call

~~Lord Young~~  
pl ask Mr Bolt if he less  
wants to reconsider  
this in light of further  
minute from Bearpark  
behind. If not, I will stick in weekend box.

**TRANSFER OF TERRESTRIAL TV SERVICE TO DBS**

Lord Young's recent (undated) minute to the Prime Minister indicated that both he and the Home Secretary thought it was important to discuss the proposal to transfer some terrestrial services to DBS with the IBA and BBC, as well as with British Sattelite Broadcasting (BSB) itself. He also floated an alternative basis for deciding when to end "simulcasting" of the transferred services, by reference to dish penetration rather than a fixed timescale. The letter from the Prime Minister's Private Secretary of 1 June does not respond directly to Lord Young's proposals; it does however record the Prime Minister's belief that only Channel 4 is a potential candidate for transfer to DBS, and that transmission arrangements for BBC2 should not be changed.

**Lord Young's Minute****(a) Meetings with Broadcasters**

2. Lord Young argues that, because two ITV companies are shareholders in BSB, it must be expected that the IBA would learn of the proposal to transfer certain terrestrial channels



to DBS. He therefore proposes that the Home Secretary and he should discuss the proposal with both the IBA and BBC as well as with BSB, to enable it to be worked up properly. It certainly would be difficult to assess the likely implications of the proposal without entering into discussions with at least the IBA (in respect of Channel 4); and, even if transfer of BBC2 is ruled out, it would only be reasonable to keep the BBC informed. There does not, therefore, seem to be any reason to object to Lord Young's proposals on consultation.

**(b) Cut off date for ending terrestrial broadcasting of transferred services**

3. Previous discussion of the proposal to transfer some terrestrial services to DBS envisaged simulcasting "for a short number of years", which would be set in advance; an illustrative period of three years was suggested (with DBS transmission commencing in 1990, and terrestrial transmission ending in 1993). The short transition period was, indeed, one of the attractions of the proposal. Lord Young now proposes that the cut-off date for terrestrial transmission should be set by reference to dish penetration; although the figures are again purely illustrative, he mentions a level of 60 per cent or a period of seven years if penetration has by then reached 40 percent. BSB's own forecasts for dish penetration suggest that these levels will not be achieved for some time: at your recent meeting with them, they suggested that there might be 5 million dishes by 1995 (about 25 percent of households) and 10 million (about 45 percent of households) by the end of the fifteen year franchise period.

4. Lord Young's revised proposal is, therefore, substantially different from his earlier one. Unless dish penetration increased substantially faster than even BSB expect, terrestrial channels would not become available for reallocation until perhaps the turn of the century, by which time other methods of delivery might have increased channel availability to substantial parts of the country. The early benefits previously envisaged would therefore be lost. Taken together with the Prime Minister's view that transfer of BBC2 to DBS should be



ruled out, the attractions of the proposal would be much reduced, while the risks would remain. A slower transitional period might however, make the proposal more acceptable to the broadcasters, and in particular Channel 4: if BBC2 was not transferred, the different audience profile for Channel 4 and for BSB programming (which is relatively down-market) might pose a serious threat to the viability of Channel 4 if it was only available on DBS. But this is not so much an argument for a slower transition as one against Lord Young's basic proposal, if it is to be limited to transferring Channel 4 only.

### Conclusion

5. Lord Young's revised proposals for ending terrestrial transmission of services transferred to DBS might make the proposal more acceptable to the broadcasters, but only at the expense of substantially reducing its attractions in terms of an early increase in the number of new terrestrial services. You are therefore recommended to write to him arguing that the option should only be discussed with broadcasters if the initial talks with BSB show this is necessary, and pointing out that it would call into question the merits of the proposal as a whole. A draft letter is attached.

CwBolt.

C W BOLT



**DRAFT LETTER FROM CHANCELLOR TO  
SECRETARY OF STATE FOR TRADE AND INDUSTRY**

**TRANSFER OF TERRESTRIAL TV SERVICES TO DBS**

You copied to me your recent minute to the Prime Minister on the transfer of terrestrial services to DBS. I have also seen her Private Secretary's letter in reply of 1 June.

2. I can see the force of the arguments you advance for extending your discussions on this proposal to the IBA. If transfer of BBC2 is ruled out, substantive discussions will not be necessary with the BBC, but you may well want to keep them in the picture. I do, however, believe that any discussions with broadcasters should be on the basis - at least initially - of the proposal discussed in MISC 128, in other words involving a fairly short period, set in advance, during which services would be transmitted both by satellite and terrestrially. While it is conceivable that dish penetration will increase faster than BSB expect, their own projections are for less than 50 percent penetration by the end of their fifteen year franchise period. Unless the trigger for ending terrestrial transmission was set at a substantially lower level than your own illustrative figure, the result would be a very much longer transition period than the three years previously suggested. The major



attraction of the scheme - the early availability of channels for additional terrestrial services - would then be lost.

3. I recognise that a longer transition period could well make the proposal more acceptable to the broadcasters. But the main risk to them would be whether Channel 4 would be viable if it was transferred to DBS. If transfer of BBC2 is ruled out, it is not clear that a slower transition would help much, given the likely difference between the audience profiles for BSB services and for Channel 4.

4. I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robin Butler.



CONFIDENTIAL

FROM: C W BOLT  
DATE: 3 June 1988

1. MRS CASE *AFZ 3/6*  
2. CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Burgner  
Mr Spackman  
Mr Farthing  
Mr Waller  
Mr Cave  
Mrs Pugh  
Mr Cropper  
Mr Tyrie  
Mr Call

*Ch/PM has not yet responded on question of wider consultation. Attached draft letter does not address risk of leaks, which must increase if we bring in others. Content to write as drafted?*

*npw OK (subject to further changes).*

#### TRANSFER OF TERRESTRIAL TV SERVICE TO DBS

Lord Young's recent (undated) minute to the Prime Minister indicated that both he and the Home Secretary thought it was important to discuss the proposal to transfer some terrestrial services to DBS with the IBA and BBC, as well as with British Sattelite Broadcasting (BSB) itself. He also floated an alternative basis for deciding when to end simulcasting of the transferred services, by reference to dish penetration rather than a fixed timescale. The letters from the Prime Minister's Private Secretary of 1 and 2 June do not respond directly to Lord Young's proposals; they do however record the Prime Minister's belief that the initial approach should be to Channel 4, and that only if they agreed to transfer to satellite should that option be offered to - but not pressed upon - BBC2.

#### Lord Young's Minute

##### (a) Meetings with Broadcasters

2. Lord Young argues that, because two ITV companies are shareholders in BSB, it must be expected that the IBA would learn of the proposal to transfer certain terrestrial channels



to DBS. He therefore proposes that the Home Secretary and he should discuss the proposal with both the IBA and BBC as well as with BSB, to enable it to be worked up properly. It certainly would be difficult to assess the likely implications of the proposal without entering into discussions with at least the IBA (in respect of Channel 4); and, even if transfer of BBC2 is conditional on a favourable response from Channel 4, it would only be reasonable to keep the BBC informed. There does not, therefore, seem to be any reason to object to Lord Young's proposals on consultation.

**(b) Cut off date for ending terrestrial broadcasting of transferred services**

3. Previous discussion of the proposal to transfer some terrestrial services to DBS envisaged simulcasting "for a short number of years", which would be set in advance; an illustrative period of three years was suggested (with DBS transmission commencing in 1990, and terrestrial transmission ending in 1993). The short transition period was, indeed, one of the attractions of the proposal. Lord Young now proposes that the cut-off date for terrestrial transmission should be set by reference to dish penetration; although the figures are again purely illustrative, he mentions a level of 60 per cent or a period of seven years if penetration has by then reached 40 percent. BSB's own forecasts for dish penetration suggest that these levels will not be achieved for some time: at your recent meeting with them, they suggested that there might be 5 million dishes by 1995 (about 25 percent of households) and 10 million (about 45 percent of households) by the end of the fifteen year franchise period.

4. Lord Young's revised proposal is, therefore, substantially different from his earlier one. Unless dish penetration increased substantially faster than even BSB expect, terrestrial channels would not become available for reallocation until perhaps the turn of the century, by which time other methods of delivery might have increased channel availability to substantial parts of the country. The early benefits previously envisaged would therefore be lost. The attractions of the



2  
proposal would be much reduced, particularly if BBC2 declined to transfer to satellite, while the risks would remain. A slower transitional period might however, make the proposal more acceptable to the broadcasters, and in particular Channel 4: if BBC2 was not transferred, the different audience profile for Channel 4 and for BSB programming (which is relatively down-market) might pose a serious threat to the viability of Channel 4 if it was only available on DBS. But this is not so much an argument for a slower transition as one against Lord Young's basic proposal, if it is to be limited to transferring Channel 4 only.

### Conclusion

\*how?  
5. Lord Young's revised proposals for ending terrestrial transmission of services transferred to DBS might make the proposal more acceptable to the broadcasters, but only at the expense of substantially reducing its attractions in terms of an early increase in the number of new terrestrial services. You are therefore recommended to write to him arguing that the option should only be discussed with broadcasters if the initial talks with BSB show\* this is necessary, and pointing out that it would call into question the merits of the proposal as a whole. A draft letter is attached.

C W BOLT



DRAFT LETTER FROM CHANCELLOR TO  
SECRETARY OF STATE FOR TRADE AND INDUSTRY

pl type  
final  
for ch

TRANSFER OF TERRESTRIAL TV SERVICES TO DBS

You copied to me your recent minute to the Prime Minister on the transfer of terrestrial services to DBS. I have also seen her Private Secretary's letters in reply of 1 and 2 June.

2. I can see the force of the arguments you advance for extending your discussions on this proposal to the IBA. If transfer of BBC2 is conditional <sup>on</sup> ~~as~~ a favourable response from Channel 4, substantive discussions will not initially be necessary with the BBC, but you will no doubt want to keep them in the picture. I do, however, believe that any discussions with broadcasters should be on the basis - at least in the first place - of the proposal discussed in MISC 128, in other words involving a fairly short period, set in advance, during which services would be transmitted both by satellite and terrestrially. While it is conceivable that dish penetration will increase faster than BSB expect, their own projections are far less than 50 percent penetration by the end of their fifteen year franchise period. Unless the trigger for ending terrestrial transmission was set at a substantially lower level than your own illustrative figure, the result would be a very much



longer transition period than the three years previously suggested. The major attraction of the scheme - the early availability of channels for additional terrestrial services - would then be lost.

3. I recognise that a longer transition period could well make the proposal more acceptable to the broadcasters. But the main <sup>concern</sup> ~~risk~~ to them would be whether Channel 4 would be viable if it <sup>was</sup> ~~was~~ transferred to DBS. If BBC2 is not also transferred, it is not clear that a slower transition would help much, given the likely difference between the audience profiles for BSB services and for Channel 4.

4. I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robin Butler.



CONFIDENTIAL

BF 7/6



6/6/88

CH/EXCHEQUER	
REC.	06 JUN 1988 ✓ 6/6
ACTION	MR BOLT
COPIES TO	CST SIR P. MIDDLETON MR ANSON MR MANICK MR PHILLIPS MR BUCKNER MR SPACKMAN MR FORTINGALE MR WALLER MR CAVE MR CASE MRS JENK MR CRAPPER

Prime Minister

TRANSFER OF TERRESTRIAL SERVICES TO DBS

As agreed at the last meeting of MISC 128, I attach a draft aide-memoire for the discussion which David Young and I are to have with BSB on 9 June. I should be glad to know if you are content with the line we propose to adopt.

2. David Young's recent minute raises two points about the consultations with BSB. I have also seen your Private Secretary's letters of 1 and 2 June conveying your own views on this matter.

3. On David Young's first point, I share his view that BSB will almost certainly need to consult their shareholders before they can consider our proposals seriously, and I accordingly support the approach he canvasses: namely that we should agree that BSB management should be authorised to inform their shareholders and that as a consequence we should inform the BBC and IBA soon after we meet BSB - all this of course without commitment on our part. It seems likely that in turn, the IBA will feel they need to inform Channel 4 (their wholly owned subsidiary) and all the ITV companies, who under current arrangements fund Channel 4.

4. The nature of the future arrangements we propose for Channel 4 depends on whether or not, in line with David Young's idea, we decide that Channel 4 should go over to satellite, and what view we take of the likely implications of that on the channel's costs and future audiences. At this stage, therefore, I would prefer to talk frankly to the IBA about the proposal, making clear that all options for Channel 4 were open and that we were studying the various possibilities without any firm commitment.

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# CONFIDENTIAL

2.

5. David Young's second point concerns the nature of the scheme to be put to BSB. He suggests that instead of a three year transitional period, the ending of the terrestrial transmission of Channel 4 (and BBC 2 if that is involved) should be linked to dish penetration. This reflects the likely concern of the broadcasters that they would stand to lose much of their audience and, in the case of Channel 4, its advertising revenue. Insofar as this different approach responds to the kind of worry I expressed in my paper (MISC 128(88)8) I naturally welcome it. However, we should be clear that the new approach would mean a fundamental change in the nature of the scheme, and accordingly in the arguments which could be advanced in support of it. While David may be right that dish penetration will be rapid, others take a different view; and if they are right the new approach would delay the arrival of new terrestrial channels, and hence the relief to the television advertising market which was one of the main thrusts behind the original scheme. Moreover, if the cut off is made dependent on high dish penetration the additional incentive for the consumer to secure a dish - namely to avoid losing access to Channel 4 (and BBC 2) - may be removed. The reasoning behind the scheme will become harder to discern or to explain. While a scheme modified on these lines would still give some help to BSB, (who would stand to get some revenue by transmitting the additional services and will have the reassurance that the additional UHF or DBS services would emerge, if at all, only at a point when it had captured a substantial share of the market), there are major sacrifices inherent in the variation now proposed. Apart from the possible damage to our ability to bring relief to the advertising market we should also be giving up the opportunity to provide additional programme services on the other two DBS channels, thereby denying opportunities for programme makers, entrepreneurs and of course for consumers who want additional programme services.

/6.

CONFIDENTIAL



3.

6. If you, and other colleagues, are content that we should discuss the matter with BSB (and then others) on the basis that the Government is considering, without any commitment, a number of variations to the original idea then I would not press my reservations at this stage though I continue to be concerned, particularly as regards BBC 2. The time for further discussion and decision within Government will be after we have taken our soundings.

7. Perhaps I could comment finally on the point you have raised about the consequences of the transfer of BBC 2 to satellite as regards the cost of the BBC television licence. Putting BBC 2 onto satellite would clearly increase transmission costs, which could be expected to cause the BBC to press for an increase in the licence fee, particularly during the period when the signal was also being broadcast terrestrially. We cannot at this stage say what these extra costs might amount to, but they would be fairly substantial. The overall transmission cost would of course be reduced once the period of simulcasting came to an end, but satellite transmission would still be more expensive than terrestrial. If, however, withdrawal of the terrestrial service was to result in a very marked decrease in the size of the BBC 2 audience, the effect could be to call into question the legitimacy of funding the service from the licence fee at all. There are clearly a number of important and difficult implications here which we shall need to think through very carefully. We shall also need to consider whether there are other ways in which we could effectively help the advertisers without running into the kind of problems emerging as a result of our study of David's scheme, either in its first or second model. But we can return to this after we have seen BSB and the broadcasting authorities.

/8.



CONFIDENTIAL

4.

8. I am copying this minute to the members of MISC 128 and to Sir Robin Butler.

*Douglas Hurd*

6 June 1988

CONFIDENTIAL





*pmp*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

6 June 1988

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade and Industry  
1-19 Victoria Street  
London SW1

cc: Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Burgner  
Mr Spackman  
Mr Farthing  
Mr Waller  
Mr C W Bolt  
Mr Cave  
Mrs Pugh  
Mr Cropper  
Mr Tyrie  
Mr Call

*John Gawn*

**TRANSFER OF TERRESTRIAL TV SERVICES TO DBS**

You copied to me your recent minute to the Prime Minister on the transfer of terrestrial services to DBS. I have also seen her Private Secretary's letters in reply of 1 and 2 June.

I can see the force of the arguments you advance for extending your discussions on this proposal to the IBA. If transfer of BBC2 is conditional on a favourable response from Channel 4, substantive discussions will not initially be necessary with the BBC, but you will no doubt want to keep them in the picture. I do, however, believe that any discussions with broadcasters should be on the basis - at least in the first place - of the proposal discussed in MISC 128, in other words involving a fairly short period, set in advance, during which services would be transmitted both by satellite and terrestrially. While it is conceivable that dish penetration will increase faster than BSB expect, their own projections are far less than 50 per cent penetration by the end of their fifteen year franchise period. Unless the trigger for ending terrestrial transmission was set at a substantially lower level than your own illustrative figure, the result would be a very much longer transition period than the three years previously suggested. The major attraction of the scheme - the early availability of channels for additional terrestrial services - would then be lost.

I recognise that a longer transition period could well make the proposal more acceptable to the broadcasters. But the main concern to them would be whether Channel 4 would be viable if it were transferred to DBS. If BBC2 is not also transferred, it is not clear that a slower transition would help much, given the likely difference between the audience profiles for BSB services and for Channel 4.





I am copying this letter to the Prime Minister, to other members of  
MISC 128 and to Sir Robin Butler.

A handwritten signature in black ink, appearing to be "Nigel Lawson", written in a cursive style.

**NIGEL LAWSON**



**CONFIDENTIAL**

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Douglas Hurd CBE MP  
Secretary of State for the Home Office  
Home Office  
50 Queen Annes Gate  
LONDON  
SW1 9AT

**Department of  
Trade and Industry**

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

CH/EXCHEQUER	
REC.	07 JUN 1988 7/6
ACTION	MR BOLT
COPIES TO	CPT SIR P. MIDDLETON MR ANSON MR MORTON MR H. PHILLIPS MR SUMNER MR SPACKMAN MR FARTHING MR WALLER MR CAVE MR LAISE MR FIGHT MR CRIPPER

Direct line 215 5422  
Our ref PSLAXV  
Your ref  
Date 7 June 1988

**ADDITIONAL DBS CHANNELS**

MISC 128 on 21 April authorised us to seek to secure in the appropriate international body an additional block or blocks of DBS channels for the UK, preferably in the same orbital position as the existing UK allocation, from which BSB will commence their satellite broadcasts next year.

To secure additional allocations for the UK would be a considerable prize, and we have been considering carefully how we can maximise our chances of success. The purpose of this letter is to propose that for tactical reasons we should delay initiating formal action until the Autumn. It is also to make clear that we should initiate such action then only if we are ready to announce at the same time our intention that new services using the additional channels should broadcasting by not later than, say, Christmas 1993.

A World Administrative Radio Conference on geostationary satellite communications (WARC- ORB 88) will be held in Geneva from the end of August for a period of six weeks. So far as broadcasting is concerned, the purpose of this conference is primarily to plan uplinks, including the uplinks to feed the DBS transponders, whose broadcast channels (downlinks) were settled as long ago as 1977. For a variety of reasons we are anxious that the conference restricts itself to its scheduled task, and is not diverted into a discussion of the 1977 DBS broadcast channel plan.



First, we need to ensure that BSB will have the fully protected uplinks they will need when they commence broadcasting next year. Second, any attempt at this stage to replan the 1977 DBS broadcast allocations would create a period of prolonged uncertainty. WARC ORB 88 is not itself competent to undertake a replanning exercise, but could refer a proposal to the Plenipotentiary Conference next May which, if it agreed, could allocate space in the forward work programme for a replanning conference, possibly in the latter half of the 1990s. Such uncertainty could only damage BSB's prospects of raising in the financial markets next year the further tranche of £400 million capital.

The Germans have already spoken openly, in the wake of their DBS satellite failure earlier this year, of the desirability of initiating a re-planning of the DBS broadcast band both to accommodate beams with a much broader footprint (eg, which might cover German-speaking Austria and Switzerland as well as Germany) and with wider channels to eventually accommodate "true" high definition television. At present, Germany, Austria and Switzerland each have their own separate and different national allocation of 5 x 27MHz channels. But in principle, with the same total amount of spectrum (405MHz), there could instead be a single transnational allocation for these 3 countries with perhaps 9 x 45Mhz (for full HDTV) channels available to all 3 via a single broad beam. In practice, to achieve this with sensible groupings (eg. by language) throughout Europe is likely to require substantial replanning of the band. Certain Scandinavian administrations are also known to favour such an approach, as is the European Commission which champions transnational broadcasting. The introduction either before or during the conference of a request from the UK for additional DBS channels could provide precisely the catalyst needed to enable those who wish to do so to initiate discussion within the conference of the desirability of opening up the 1977 DBS broadcast plan.

It must be said that the arguments advanced by the Germans and others have much to commend them. Were it not for our shorter term objectives of seeking additional DBS channels under the existing plan, and of wishing to smooth BSB's path, we might well have wished to support them. We should however have an opportunity to reconsider our stance in time for next May's Plenipotentiary Conference in the light of developments in the intervening period.

There is one further consideration. It carries with it important policy implications on which we must be clear that there is no misunderstanding between us. Under the existing



International Radio Regulations an allocation in these bands, once made, must be put into use within 5 years of the date of application. If it is not, the allocation lapses (unless under special circumstances a limited extension is granted). This would mean that if we were to apply in October this year for additional DBS allocations for the UK, and if our application were to be successful, the new services would need to be operational (or be very close to so being) before the end of 1993. I am not sure that this is realistic. More importantly, are we clear that it is what we want? It would effectively mean an announcement in the Autumn - I assume in the context of our proposed White Paper on broadcasting - to the effect that we would license new DBS services, using the additional DBS channels we had applied for, to commence broadcasting by, say, Christmas 1993.

There is a possibility - I put it no higher - that WARC ORB 88 can be persuaded to accept that the relevant period for uplinks should be 8 rather than 5 years; and that the period for downlinks could then be extended to 8 years by analogy. But if we seek to argue this line after we have submitted a request for additional channels, it is likely to be widely seen as suggesting that we have no serious intention of introducing additional DBS services within the near future.

For all these reasons I see clear advantages in withholding our formal request for additional DBS channels until after the ending of WARC ORB 88 in October. We shall then know whether or not the period for bringing allocations into use has been extended from 5 years to 8. If we still wish to proceed, we could immediately submit our request whilst simultaneously opening bilateral discussions with affected neighbouring administrations, as this could help to reduce the maximum of 200 days allowed to administrations to intervene if they believe they may be adversely affected by a proposal. If objections are raised within the 200 day limit we should be able fairly quickly to establish how substantial they are, and our prospects of overcoming them. This should just about give us time, if it then seems advantageous to do so, to shift our stance at the Plenipotentiary Conference in May to one of support for a replanning of the band.

There is one important risk attaching to this strategy. It is that in the period between now and October another administration could submit a similar request, and thereby pre-empt our plans. Such a request might be a straightforward pre-emptive strike by another administration which had learned of our intentions, but could also - though much less probably - result from another administration coincidentally thinking along similar lines.



Despite this risk, I see the balance of advantage as strongly in favour of the strategy I have outlined and propose that we should proceed accordingly, though we must do everything we can to ensure that our intentions remain confidential between now and October.

I am copying this letter to the Prime Minister, the Foreign Secretary, members of MISC 128 and to Sir Robin Butler.

Case,  
Paw



CONFIDENTIAL



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9/6

REQUER	
09 JUN 1988	
Mr BOLT	
COPIES TO	CST S. R. P. MIDDLETON
	MR ANSON MR MARCK
	MR PHILLIPS MR BURTON
	MR SPACKMAN MR FARRANT
	MR WALLER MR CAVE
	MRS CASE MRS PUGH
	CROPPER

10 DOWNING STREET  
LONDON SW1A 2AA

8 June 1988

From the Private Secretary

Dear Catherine,

TRANSFER OF TERRESTRIAL SERVICES TO DBS

X1

The Prime Minister was grateful for the Home Secretary's minute of 6 June and the enclosed aide memoire for tomorrow's discussion with BSB. She has also seen the Chancellor of the Exchequer's letter of 6 June.

The Prime Minister is content for the Home Secretary and the Secretary of State for Trade and Industry to use the aide memoire for the meeting with BSB, on the basis that these are purely exploratory discussions. As recorded in Andy Bearpark's letter of 2 June to Jeremy Godfrey, the Prime Minister continues to feel that a possible transfer to DBS should not be pressed upon BBC2, but she is content for both the BBC and the IBA to be informed of the discussions soon after the meeting with BSB. Indeed the Prime Minister thinks it would be helpful for a low key public announcement of these exploratory discussions to be made at an early date.

The Prime Minister was also grateful for the Home Secretary's comments on the possible consequences of a transfer of BBC2 to satellite on the cost of the BBC television licence. She has noted that this could involve a number of important and difficult implications, and agrees it will be necessary to return in due course to all the policy issues raised by the exploratory discussions.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sir Robin Butler.

Yours sincerely,  
Paul Gray

PAUL GRAY

Miss Catherine Bannister,  
Home Office.

CONFIDENTIAL



CONFIDENTIAL

FROM: C W BOLT

DATE: 9 June 1988

1. MRS CASE *At 2/8*  
 2. CHANCELLOR

cc Chief Secretary  
 Sir P Middleton  
 Mr Anson  
 Mr Monck  
 Mr Phillips  
 Mr Burgner  
 Mr Spackman  
 Mr Farthing  
 Mr Waller  
 Mr Cave  
 Mrs Pugh  
 Mr Cropper

*Ch/ All getting v. tricky.  
 Content with draft?* *OK*

**ADDITIONAL DBS CHANNELS** *mpw 9/6.*

Lord Young's letter of 7 June to the Home Secretary proposes that no action is taken until the autumn - after a World Administrative Radio Conference on geostationery satellite communications (WARC - ORB 88) - to try to secure additional DBS channels for the UK, and that we should initiate such action then only if we are ready to announce at the same time that new services on these channels should be broadcasting by, say, Christmas 1993. This submission recommends that you should accept Lord Young's arguments against seeking to secure additional DBS channels now, but suggests that the contents of Lord Young's letter may point to the need to reexamine the initial conclusions reached by MISC 128 on 21 April on future policy towards DBS.

Lord Young's letter

2. Lord Young's letter advances two main reasons for delaying action to secure additional DBS channels until later in the year. The first is to avoid diverting discussion at WARC-ORB 88 (which will be held in Geneva from the end of August for a period of 6 weeks) into a discussion of the 1977 DBS broadcast channel plan. (It was this plan which allocated channels to individual countries, including the existing 5 UK channels). Lord Young believes that it will be undesirable to open up the question of the allocation of DBS channels at this conference, not least because the resulting uncertainty might damage BSB's prospect of raising the initial capital it requires before it commences operation.



2 The second reason for delay suggested by Lord Young is that, under the existing International Radio Regulations, an allocation of DBS channels, once made, must be put into use within 5 years of the date of application. If it is not, the allocation lapses. An application in 1988, if successful, would therefore require operations to commence in 1993. As Lord Young point out, it is not clear that this is either realistic, or desirable in terms of broadcasting policy. But if, as is possible, the WARC extends the period for bringing allocations into use from 5 years to 8 years, and subject to decisions on additional programme services generally, it could then be sensible to put in an application immediately after the ending of the conference in October.

### Discussion

4. Following the failure of their DBS satellite earlier this year, the Germans have already spoken openly of the desirability of replanning the DBS broadcast band, both to accommodate high definition television (which requires wider channels) and to accommodate beams with a much broader footprint. Certain Scandinavian administrations, as well as the European Commission, apparently favour such an approach. The timescale is, however, quite long: WARC-ORB 88 is not itself **competent** to undertake a replanning exercise, but could refer a proposal to the Plenipotentiary Conference next May which, if it agreed, could allocate space in the forward work programme for such a replanning conference "possibly in the latter half of the 1990s". Lord Young indicates that, were it not for our short term objectives of seeking additional DBS channels under the existing plan, and of wishing to smooth BSB's path, we might well have wished to support an initiative for undertaking a replanning exercise.

5. Broadcasting policy is clearly not sufficiently advanced to envisage announcing in the autumn new DBS channels to start operations in 1993. It would have been necessary, at the very least, to seek some expression of commercial interest before doing so. It would, therefore, seem premature to seek additional DBS channels, even on the basis suggested by Lord Young, if the period between application and use remains at 5 years. Although Lord Young does not go into the arguments in detail in his letter, it could well be that, in those circumstances, the benefits to the UK of renegotiating DBS allocations might be greater than the benefits of securing additional channels under the existing plan: much would depend on the timescale of the replanning exercise and nature of decisions on the introduction of high definition television services.



The additional uncertainty introduced by Lord Young's latest letter also throws further into doubt his proposal to transfer Channel 4 and, possibly, BBC2 to DBS. You have already expressed, in your letter to him of 6 June, your concern that the benefits of this plan would be reduced if it did not result in a relatively early end to terrestrial transmission of the transferred services. If the argument in favour of replanning are as strong as implied by Lord Young's letter, these are additional factors which ought to be considered by MISC 128 before a final decision is taken on bidding for extra channels. You are therefore recommended to write to Lord Young expressing surprise at this further change in the prospectus for DBS, and suggesting that the implications need to be more fully considered before any action is initiated. A draft letter is attached.

*C.W. Bolt.*

C W BOLT



CONFIDENTIAL

*pse type final  
for Ch***DRAFT LETTER FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR TRADE AND  
INDUSTRY**

cc as indicated

**ADDITIONAL DBS CHANNELS**

I have seen your letter of 7 June to Douglas Hurd, proposing that we do not take any action on seeking to secure an additional block of DBS channels for UK until at least the autumn, and only then if we are prepared to contemplate additional channels being operational by the end of 1993.

2. I accept the force of the argument you advance for taking no action now. Indeed, as you imply, it may be premature even to contemplate an application to secure an additional block in the autumn if the period for bringing allocations into use remains at 5 years.

3. I do wonder, however, whether we need to consider further in MISC 128 the arguments for seeking early replanning of the DBS channel allocations. You say in your letter that these arguments have much to commend them, and that it is only our short term objectives of seeking additional DBS channels and wishing to smooth BSB's path that argue against supporting them now. These considerations do seem to throw further uncertainty on the proposal you brought to MISC 128 in April for transferring BBC2 and Channel 4 to DBS, in order to free up terrestrial channels. As I suggested in my letter of 6 June, the broadcasting benefits of this change could be less than anticipated if it is only Channel 4 that transfers, and if the release of terrestrial channels is delayed well into the 1990s. In these circumstances, it may be that we have more to gain from supporting early moves towards replanning the DBS allocations than seeking additional allocations within the existing plan.



It would be helpful if we could consider these question further in MISC 128, in the light of a fuller assessment of the arguments for and against a replanning of the DBS broadcast channel plans.

5. I am copying this letter to the Prime Minister, the Foreign Secretary, members of MISC 128 and to Sir Robin Butler.



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X  
But I am unclear-particularly  
in the light of developments in  
the last week- about the balance  
of advantage between





*pls read  
as marked*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

~~10~~ June 1988

~~*[Handwritten signature]*~~

**ADDITIONAL DBS CHANNELS**

I have seen your letter of 7 June to Douglas Hurd, proposing that we do not take any action on seeking to secure an additional block of DBS channels for UK until at least the autumn, and only then if we are prepared to contemplate additional channels being operational by the end of 1993.

I accept the force of the argument you advance for taking no action now. Indeed, as you imply, it may be premature even to contemplate an application to secure an additional block in the autumn if the period for bringing allocations into use remains at 5 years.

I do wonder, however, whether we need to consider further in MISC 128 the arguments for seeking early replanning of the DBS channel allocations. You say in your letter that these arguments have much to commend them, and that it is only our short term objectives of seeking additional DBS channels and wishing to smooth BSB's path that argue against supporting them now. ~~These considerations do seem to throw further uncertainty on the proposal you brought to MISC 128 in April for transferring BBC2 and Channel 4 to DBS, in order to free up terrestrial channels. As I suggested in my letter of 6 June, the broadcasting benefits of this change could be less than anticipated if it is only channel 4 that transfers, and if the release of terrestrial channels is delayed well into the 1990s. In these circumstances, it may be that we have more to gain from supporting early moves towards replanning the DBS allocations than seeking additional allocations within the existing plan.~~

It would be helpful if we could consider these questions further in MISC 128, in the light of a fuller assessment of the arguments for and against a replanning of the DBS broadcast channel plans.

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I am copying this letter to the Prime Minister, the Foreign Secretary, members of MISC 128 and to Sir Robin Butler.

**NIGEL LAWSON**

CONQUEROR



Pps in?



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switsfwrdd)  
01-270 0538 (Llinell Union)  
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switchboard)  
01-270 0538 (Direct Line)  
From The Secretary of State for Wales

Rt Hon Peter Walker MBE MP

MP 10 June 1988

*Alan Hughes*

I have seen your minute of 6 June to the Prime Minister and I agree with all that you say. At an earlier stage in our considerations we agreed that our proposals for C4UK should not affect S4C which would continue to transmit its output as at present.

I am anxious to ensure that no unfounded and unnecessary rumours about S4C emerge as a result of your discussions with the BBC and ITV. S4C as you know has a statutory obligation to re-schedule C4UK programmes in Wales. In going satellite we must ensure that whatever technical changes C4UK have to make do not affect S4C's capacity to transmit its programmes terrestrially. In deciding that we would not alter S4C's existing transmission arrangements I assumed that these would not be a problem. I would like to be assured on this, and I believe we should stand ready to make that assurance public at an early stage once our proposals for C4UK become known to the industry. I am anxious that this does not become an issue here in Wales at this time as I am shortly to make an important announcement regarding my future plans for the Welsh Language.

/ I am copying this letter to other members of MISC 128 and to Sir Robin Butler.

*Handwritten signature*

CH/EXCHEQUER	
REC.	13 JUN 1988 ✓ 13/6
ACTION	MR BOLT
COPIES TO	CST SIR P. MIDDLETON MR ANSON MR MACKAY MR PHILLIPS MR BURGNER MR SPACKMAN MR MARTIN MR WALLER MR CAVE MRS ASE MRS RICH MR CLOPPER.

Rt Hon Douglas Hurd CBE MP  
Secretary of State for the Home Department





Mr Anson, Mr Mackie.

Mr Phillips, Mr Burgess

Mr Spackman, Mr Fawcett

Mr Wallace, Mrs Cuse, Mr Burt

Treasury Chambers, Parliament Street, SW1P 3AG

01-270 3000 Mr Cuse, Mrs Burt

Mr Cropper.

13 June 1988

The Rt Hon Lord Young of Graffham  
 Secretary of State for Trade  
 and Industry  
 Department of Trade and Industry  
 1-19 Victoria Street  
 LONDON  
 SW1H 0ET

A large, stylized handwritten signature in dark ink.

Two handwritten signatures or initials in dark ink, appearing to be 'Jm' and 'Jm'.

#### **ADDITIONAL DBS CHANNELS**

I have seen your letter of 7 June to Douglas Hurd, proposing that we do not take any action on seeking to secure an additional block of DBS channels for UK until at least the autumn, and only then if we are prepared to contemplate additional channels being operational by the end of 1993.

I accept the force of the argument you advance for taking no action now. Indeed, as you imply, it may be premature even to contemplate an application to secure an additional block in the autumn if the period for bringing allocations into use remains at 5 years.

I do wonder, however, whether we need to consider further in MISC 128 the arguments for seeking early replanning of the DBS channel allocations. You say in your letter that these arguments have much to commend them, and that it is only our short term objectives of seeking additional DBS channels and wishing to smooth BSB's path that argue against supporting them now. But I am unclear - particularly in the light of developments in the last week - about the balance of advantage between supporting early moves towards replanning the DBS allocations and seeking additional allocations within the existing plan.

It would be helpful if we could consider these questions further in MISC 128, in the light of a fuller assessment of the arguments for and against a replanning of the DBS broadcast channel plans.



CONFIDENTIAL



I am copying this letter to the Prime Minister, the Foreign Secretary, members of MISC 128 and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read "Nigel Lawson".

**NIGEL LAWSON**





CONFIDENTIAL

*MP*

CH/EXCHEQUER	
REC.	20 JUN 1988 20/6
ACTION	MR BOLT
COPIES TO	CST SIR P. MIDDLETON MR ANSON MEMONCK MR H. PHILLIPS MR BUREMER MR SPACKMAN MR FARSHING MR WALLER MRS CADE MRS CASE MRS PUGH MR CROPPER

FCS/88/117

17/6/88

SECRETARY OF STATE FOR TRADE & INDUSTRY

Additional DBS Channels

1. I am grateful to you for sending me a copy of your letter of 7 June to the Home Secretary.
2. I agree that for the reasons set out in your letter we should defer any approach to the ITU for additional DBS Channels until after the World Administrative Radio Conference for the Planning of the Geostationary Orbit (WARC-ORB 88) in October this year.
3. I noted with interest that you mentioned the possibility of a re-planning exercise for the DBS broadcasting band, which would provide a broader national coverage than that established in 1977. As you may know, at the time the Government were considering introducing UK DBS, I argued strongly for a European (as opposed to a purely domestic) UK DBS service on the grounds of the real advantages to be gained from industrial and commercial spin-off of such a service, as well as the foreign policy and UK cultural diplomacy implications. These arguments, I believe, still remain valid. Moreover, it seems to me that the climate for such a wider European service is now particularly suitable,

/given

CONFIDENTIAL





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given German and Scandinavian interests in extending their own DBS footprints, and in the light of MISC 128 considerations and of developments in transfrontier broadcasting in the Community and the Council of Europe.

4. I am of course aware that now is not the time to be considering the question of DBS re-allocation and I am writing at this stage only to register our interest. But this is something we will need to look at very closely, possibly sometime after the WARC-ORB 88, and well before the 1989 ITU Plenipotentiary.

5. I am copying this minute to the Prime Minister, the Home Secretary, and other members of MISC 128 and to Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
17 June 1988

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CONFIDENTIAL

ppp p1



CH/EXCHEQUER	
REC.	21 JUN 1988
ACTION	MR BOLT
COPIES TO	CST SIR P. MIDDLETON MR ANDERSON MR MORRIS MR PHILLIPS MR BURTON MRS CASE MR SPACKMAN MR FORTNOR MR LITTLE MR CAVES MRS PUGH MR CROPPER.

QUEEN ANNE'S GATE LONDON SW1H 9AT

20 June 1988

BF 27/6  
417

Dear David,

ADDITIONAL DBS CHANNELS

Thank you for your letter of 7 June. I have also seen Nigel Lawson's letter of 13 June.

I agree that, for the reasons you mention, we should not take any action before the autumn to secure an additional allocation of DBS frequencies. In particular, it would be unfortunate at the present stage of the development of broadcasting policy, to commit ourselves to the introduction of additional DBS services by the end of 1993. In the early autumn, when the outcome of the World Administrative Radio Conference in Geneva is clear, we will need to review collectively our tactics and timing on applying for additional DBS channels, particularly bearing in mind the five year link between the date of application and the date on which frequencies are expected to be brought into use. In the meantime we will, as you say, have to keep our intentions well hidden.

I am copying this letter to the Prime Minister, the Foreign Secretary, Members of MISC 128 and Sir Robin Butler.

Yours,  
Douglas

The Rt Hon Lord Young of Graffham

CONFIDENTIAL



CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

CH/EXCHEQUER	
REC.	-4 JUL 1988 ✓ 47
ACTION	MR BOLT
COPIES TO	CST SIR P. MIDDLETON MR ANSON MR MURPHY MR PHILLIPS MR BURNER MRS CASE MRS PACKMAN MR FARTHING MR LAMER MR CAVE MRS PUGH MR CROPPER

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref PS4AUX  
Your ref  
Date 1 July 1988

✓ pmp

Nigel Lawson

## ADDITIONAL DBS CHANNELS

Thank you for your letter of 13 June. I have also seen Geoffrey Howe's minute of 17 June and Douglas Hurd's letter of 20 June.

You suggest that before deciding whether to seek additional DBS allocations within the existing plan we should review the balance of advantage between that course and supporting early moves towards an international replanning of the DBS allocations. Perhaps the best way forward is for officials to examine the issue first in the light of the outcome of the consideration currently being given to the possibility of transferring TV services to DBS and report to MISC 128 once the outcome of WARC-ORB 88 can also be assessed.

Transfrontier beams undoubtedly hold attractions, as Geoffrey Howe indicates. However, we should have to be very sure that BSB's plans were not put in jeopardy. Besides, there may be other, commercial reasons for favouring national footprints for the time being - for example, the question of film rights.



We must also not overlook the fact that our geographical position gives us better prospects than most continental European countries of securing additional channels. If the band were radically replanned, we might well find that the total number of English speaking channels was less than we might be able to secure under the present arrangements (though viewers would gain access to non-English speaking ones). In any case, given the ITU conference programme, the earliest prospect for a fresh planning conference is likely to be well into the mid 1990s. In the meantime, the overwhelming international pressures on us would be to put on ice any plans we might have for channels additional to our present allocation of five.

I am copying this letter to the Prime Minister, to Geoffrey Howe and the other members of MISC 128 and to Sir Robin Butler.

*J. G. L.*  
*Howe*





CH/EXCHEQUER	
REC.	11 OCT 1988
ACTION	Mrs Case
COPIES TO	CST, FSI Sir P. Middleton Mr Anson Mr Mond Mr Phillips Mr Bwaner Mr Spudis Mr Waller Mr Farthing Mr Perrett Mr Case Mr Nichol Mr Cropper Mr Tyrie Mr Call

QUEEN ANNE'S GATE LONDON SW1H 9AT

10 October 1988

Dear David

DBS CHANNELS 4 and 5

We had a word at Cabinet about Sir Trevor Holdsworth's letter of 30 September to me summarising British Satellite Broadcasting's views about the White Paper. In that letter he indicates that BSB would now be willing to see the three year moratorium on the allocation of DBS Channels 4 and 5 lifted, and would indeed wish to see the early allocation of the two channels so that they would be in use by the summer of 1990. I enclose a copy of the relevant extract from the letter for the benefit of colleagues who will not have seen it.

The sole purpose of the undertaking which I gave to BSB last year, with the agreement of colleagues, that DBS Channels 4 and 5 would not be allocated until they had been operational for at least three years, was to offer them a measure of protection from competition in their early years. As the intended beneficiaries of the moratorium now no longer want this form of protection it would be paradoxical to maintain it. Furthermore, it would delay unnecessarily the introduction of new programme services. The IBA has indicated that they would support the allocation of the two channels, on condition that BSB make arrangements to enable other operators to use their receivers without necessarily being tied into the same subscriber management system. I therefore propose, subject to the resolution of the point identified by the IBA and the agreement of colleagues, to tell BSB that the channels will be released for allocation as soon as possible. Releasing the channels at this stage would not give BSB an inside track. Although they intend to apply for them if they are advertised, they accept that there would be open competition. And while the BSB would be obliged to consider any application from BSB, my officials have been told that the present thinking of the Authority is that it is very unlikely that BSB would be awarded the franchise.

Releasing the channels in advance of legislation would, of course, mean that the franchise would have to be allocated by the IBA in accordance with the procedures laid down in the Broadcasting Act 1981 and the Cable and Broadcasting Act 1984, rather than by competitive tender as the draft White Paper envisages for future DBS channels. I do not believe in practice that this will make any significant difference. Any prospective satellite operator will have the option of leasing transponders on a medium-powered satellite like Astra or Eutelsat II which would not involve paying for frequencies (which is what competitive tender would effectively amount to in this context). So even if we delayed the release of DBS Channels 4 and 5 so that they could be allocated by competitive tender it seems unlikely that the

The Rt Hon The Lord Young of Grafton

/over....

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→  
L Young  
10/10



2.

market would value them highly. To the extent that allocating them in advance of legislation would involve foregoing revenue, this would be offset to some degree by bringing forward the date from which the operator could be expected to start paying levy and tax. Allocation of the channels in advance of legislation would also imply awarding the franchise on the basis of the existing regulatory regime for DBS, which we are proposing to relax slightly. This awkwardness already applies of course to BSB; and the draft White Paper notes that discussions with them about the transitional arrangements will be necessary. Whatever arrangements are devised can be applied similarly to the operators on the two additional channels.

..... The natural opportunity to announce a decision that the two channels were to be allocated would be the White Paper. I attach draft paragraphs for this purpose.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Yours,

Douglas



DRAFT PARAGRAPHS FOR WHITE PAPER

Replace Chapter VI paragraph 27 by:

The Government gave BSB an undertaking last year that the UK's fourth and fifth DBS channels would not be allocated until BSB's service had been in operation for at least three years. BSB have, however, recently indicated that they would be willing to see this moratorium lifted. The Government has therefore decided to make these channels available for allocation as soon as possible. The IBA expect to advertise the contracts for the use of these channels in January next year and to have awarded the franchise by June, with a view to the service starting in mid-1990.

This will account for all the DBS channels so allocated to the UK. The Government believes however that it would be sensible to make legislative provision against the possibility that the UK is allocated any additional DBS channels in future. It envisages that the ITC will allocate licences for any future DBS services. These services will be subject to the viewer protection requirements described in paragraph 10. They will also be required to meet the positive requirements on independent production and on EC material described in paragraph 11. The Government does not believe it right to impose the diversity requirement, and clearly the regional programming requirement would be inapt. The Government is inclined not to require any future DBS services to show news and current affairs, though it would consider carefully any contrary views.

<wk>J/Q/ltr/fm/BSB



2. DBS Channels 4 and 5

In making a response to the Government's ideas about the possible transfer of BBC2 and Channel 4 to DBS, BSB made a number of suggestions about alternative uses of DBS Channels 4 and 5 - including the creation of a Pay-Per-View Channel on a common carrier basis. We indicated our willingness to discuss the lifting of the three year moratorium. Since that time there has been one preliminary exchange with officials and a more detailed series of discussions with the IBA. For two reasons we would now urge the allocation of the Channels with a view to them broadcasting by Summer 1990.

- i) Although the two additional Channels will siphon some potential revenue from BSB they can be distinguished from new terrestrial competition in that they will reinforce the appeal of satellite broadcasting during whatever window of opportunity you allocate to us. Furthermore, leaving aside the Press backing available to the Murdoch and Maxwell Channels, the only strength which Astra has over BSB is its ability to offer up to eleven English language Channels. The UK DBS position of 31 degrees West would be strengthened by a five, rather than three, Channel offering; and
- ii) If DBS Channels 4 and 5 are not allocated until after the inception of the Fifth Channel and, perhaps, MMDS services, there is a very significant chance they will not be viable and will remain unallocated for some years - leading to wastage of a national resource.

BSB would wish to apply for these Channels but allocation would naturally be subject to competition. BSB would be willing to negotiate constructively with other operators if they were chosen by such a process about the possibility of carriage on the BSB satellites. We understand that the IBA would support earlier allocation, subject to discussion of practicalities.



*BF 14/10*

FROM: MRS A F CASE  
DATE: 13 October 1988

CHANCELLOR

cc

*Handwritten notes in red ink:*  
i.e. the  
propose - re  
submit

- Chief Secretary
- Financial Secretary
- Sir P Middleton
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Burgner
- Mr Spackman
- Mr Farthing
- Mr Perfect
- Mr Cave
- Mr Nicol
- Mr Cropper
- Mr Tyrie
- Mr Call

CASE  
→  
CHEX  
13/10

*Ch/ if you agree you can tell Mr H on Monday and write round simultaneously for colleague information*

*mp*

DBS CHANNELS 4 AND 5

*With chg*

The Home Secretary's letter to Lord Young of 10 October seeks agreement to announcing in the Broadcasting White Paper that the remaining two UK DBS channels would be allocated by the IBA as soon as possible. This would allow the new services to start in mid-1990.

2. Bidders for DBS channels 1-3 were given an undertaking that the remaining two channels would not be allocated for three years from the inception of the service. BSB, the contractor for these channels, has now asked for this protection to be lifted and the remaining channels allocated as soon as possible. This seems to reflect a judgement on their part of the benefits to them of encouraging penetration of DBS, to combat increasing competition from Astra etc and in advance of the further competition from terrestrial channels after 1993. The IBA are content, subject to resolving a question about the use of BSB receivers. It is unlikely that BSB would be allocated the additional channels.

3. The attraction of allocation now would be the provision of new services, greater competition and potentially greater diversity at the earliest opportunity. It would be a good signal of HMG's intentions. It is not clear how much interest there would be but there were 5 applicants for the three channel



contract already allocated plus 3 applications for single channels. All the applicants proposed to commission rather than produce programmes and all but one intended to make some use of subscription. Getting Channels 4 and 5 on air quickly could therefore benefit independent producers and the development of subscription.

4. The drawback is that allocation in advance of the new broadcasting legislation would have to be under current IBA procedures rather than through competitive tender. There would therefore be a reduction in Exchequer revenue, although this might be offset by earlier receipts of levy and tax. Mr Hurd doubts whether these financial consequences would be significant since the value of satellite franchises would not be very high given the availability of alternatives.

5. One possibility which it would be worth exploring is whether the IBA could be persuaded to use its allocation procedures to give a positive push to the development of subscription. Although the IBA would probably feel debarred from advertising subscription only channels, they might be able to require a significant degree of subscription broadcasting.

6. Mr Hurd's proposal offers an opportunity of allowing satellite broadcasting to grow more quickly, if the market demand is there. I therefore recommend that you should support him, raising the possibility of taking an opportunity to give a push to subscription. I attach a draft letter.



MRS A F CASE



DRAFT LETTER TO THE HOME SECRETARY

pl type final  
for Ch

cc Prime Minister  
Members of MISC128  
Sir Robin Butler

DBS CHANNELS 4 AND 5

Your letter of 10 October proposes announcing in the Broadcasting White Paper that the remaining two DBS channels would be allocated as soon as possible given that BSB were willing to see the moratorium lifted.

2. Like you, I think that the opportunity to enable new programme services to be introduced more quickly - if that is what the market wants - outweighs the disadvantages of allocating the franchise under the existing legislation rather than by competitive tender. I therefore support your proposals.

3. I also wondered whether this would be an opportunity to give some further stimulus to subscription. I note that all but one of the contenders for the original three DBS channels envisaged a mix of advertising and subscription. Would it be possible for the IBA either to require a certain amount of subscription programming or *at the very least* (to have regard to the amount of subscription proposed in allocating the channels? Together with the subscription element in BSB and its development on night hours BBC services, this would offer the opportunity of establishing the more varied, competitive market in subscription services that we earlier hoped to secure on the BBC and ITV night hours.

4. I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.



cc CST  
 FST  
 Sir P Middleton  
 Mr Anson  
 Mr Monck  
 Mr Phillips  
 Mr Burgner  
 Mr Spackman  
 Mr Farthing  
 Mr Perfect  
 Mr Cave  
 Mrs Case  
 Mr Nicol  
 Mr Cropper  
 Mr Tyrie  
 Mr Call



Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

17 October 1988

The Rt. Hon. Douglas Hurd CBE MP  
 Secretary of State for the Home Department  
 Home Office  
 50 Queen Anne's Gate  
 LONDON  
 SW1H 9BW

MP

Dear Secretary of State

DBS CHANNELS 4 AND 5

Your letter of 10 October proposes announcing in the Broadcasting White Paper that the remaining two DBS channels would be allocated as soon as possible given that BSB were willing to see the moratorium lifted.

Like you, I think that the opportunity to enable new programme services to be introduced more quickly - if that is what the market wants - outweighs the disadvantages of allocating the franchise under the existing legislation rather than by competitive tender. I therefore support your proposals.

I also wondered whether this would be an opportunity to give some further stimulus to subscription. I note that all but one of the contenders for the original three DBS channels envisaged a mix of advertising and subscription. Would it be possible for the IBA either to require a certain amount of subscription programming or at the very least to have regard to the amount of subscription proposed in allocating the channels? Together with the subscription element in BSB and its development on night hours BBC services, this would offer the opportunity of establishing the more varied, competitive market in subscription services that we earlier hoped to secure on the BBC and ITV night hours.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Yours sincerely,  
Moir Wallace

PP NIGEL LAWSON  
 (Approved by the Chancellor)

CHEX  
 →  
 HURD  
 17/10





the department for Enterprise

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

COMMERCIAL IN CONFIDENCE

Rt Hon Douglas Hurd CBE MP  
Home Secretary  
Home Office  
50 Queen Anne's Gate  
London SW1

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

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01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

CH/EXCHEQUER	
REC.	19 OCT 1988
ACTION	MRS CASE ✓ 19/10
COPIES TO	CST, FST, SER P MIDDLETON MR ANSON, MR MONCK, MR PHELPS, MR BURGER, MR SPACKMAN, MR COLLIER, MR FARTHING, MR PERFECT, MR CASE, MR NICHOL, MR CROPPER, MR TYRRE, MR CALL

Direct line 215 5422  
Our ref DW2ATX  
Your ref  
Date 18 October 1988

*John Taylor*

DBS CHANNELS 4 AND 5

Thank you for your letter of 10 October about BSB's request that the moratorium on the allocation of DBS channels 4 and 5 be lifted.

I am encouraged by the more aggressive competitive stance which BSB are now adopting, and that they no longer feel the need for a protective moratorium. I welcome the prospect of the early introduction of further new services by UK DBS, and the further impetus this is likely to give to the take-up of new broadcasting technology. I am happy therefore that you should proceed as you propose.

I have seen Nigel Lawson's suggestion, in his letter of 17 October, that the IBA might require proposals to include a certain amount of subscription programming. Even though there is some prospect of infrastructure sharing with BSB, the new contractors will still be making a significant investment and I believe it would be right to allow them to decide their own mix of subscription and advertising. Given particularly that BSB will be putting a sophisticated conditional access system into the field, I would be surprised if subscription did not play a fairly significant part in most potential contractors' proposals in any case.

I am copying this letter to the Prime Minister and other members of MISC 128, and to Sir Robin Butler.

*John Taylor*



L. Young  
Hurd  
18/10





QUEEN ANNE'S GATE LONDON SW1H 9AT

CH/EXCHEQUER	
REC.	19 OCT 1988
ACTION	MRS CASE
COPIES TO	CST, FST
	SIR P MIDGTON
	MR ANDERSON, MR MONCK, MR PHILLIPS, MR BURGNER,
	MR SPACKMAN, MR WALLER, MR FARTHING, MR PERFECT,
	MR CASE, MR NICHOL, MR CROPPER, MR TYRRE, MR CALL.

19 October 1988

- 19/10

Dear Nigel,

DBS CHANNELS 4 AND 5

Thank you for your letter of 17 October about my proposal that we should announce in the White Paper that the remaining two DBS channels would be allocated as soon as possible.

ok | I am glad that you support this proposal. I am grateful for your suggestion that we might use this opportunity to give a further stimulus to subscription. In general we are in the White Paper leaving it to operators of commercial TV stations (including BSB) to choose for themselves the best mix between advertising and subscription, and I think this is right. But it is, I believe, open to the IBA to refuse to permit advertisements to be carried on one or both of these DBS channels. I assume that it is accordingly open to them to announce this fact at the time they advertise the contract. However, though I have not yet discussed the matter with the IBA, I anticipate that they will take the view that they could decide that this course was right only after considering the broadcasting scene in general, and the commercial television scene in particular. Obviously they will not be in a position to do that until our White Paper is published. Accordingly, if we want to administer a further nudge towards subscription the White Paper might say that we are interested in the possibility of using DBS Channels 4 and 5 to give a further stimulus to subscription and that we propose to discuss how this might be done with the IBA. If colleagues believe this to be the right approach I would be happy to agree to it.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Lawson,  
Dyler.

The Rt Hon Nigel Lawson, MP.