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10 DOWNING STREET

From the Private Secretary

15 May 1985

CHAIRMANSHIP OF THE ATOMIC ENERGY AUTHORITY

The Chancellor and Sir Robert Armstrong are, as you know, joining the Energy Secretary at a meeting with the Prime Minister on Thursday after Cabinet to consider the Chairmanship of the AEA. I attach papers for the meeting as follows:

- FLAG A — (i) Robin Nicholson's letter to the Energy Secretary of 30 April, covering a note on the future of the Authority.
- FLAG B — (ii) The Energy Secretary's minute to the Prime Minister of 9 May, covering a letter to Peter Rees dealing, among other things, with a proposal to allow the AEA Board to take minority stakes in companies carrying out non-nuclear work.
- FLAG C — (iii) The Energy Secretary's minute to the Prime Minister of 1 May.

Before the meeting, Energy will be circulating a note setting out their response to Sir Robin Nicholson's proposals.

I am copying this letter and the enclosures to Richard Hatfield (Cabinet Office).

MARK ADDISON

Mrs. Rachel Lomax,  
H.M. Treasury.



COB/OP

01-211-6402

Mark Addison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

15 May 1985

*Dear Mark*

SIR ROBIN NICHOLSON AND THE FUTURE OF UKAEA

By way of briefing for the meeting of a group of Ministers following Cabinet tomorrow on this subject, you have asked for a commentary on Sir Robin Nicholson's note on the future of the UKAEA which was attached to my Secretary of State's minute to the Prime Minister of 1 May. This is enclosed.

My Secretary of State's letter of 9 May, to the Chief Secretary, is also enclosed.

Copies go to Margaret O'Mara in the Chancellor's office and Richard Hatfield in Sir Robert Armstrong's office.

*Yours sincerely**Philip Evans*

P R EVANS  
Private Secretary

P.S. I enclose also, for the Prime Minister only, a copy of a personal and confidential letter from Sir Kenneth Carsons, which followed a recent meeting he had with Sir Robin Nicholson.



## COMMENTARY ON SIR ROBIN NICHOLSON'S NOTE - 'THE FUTURE OF THE UKAEA'

Paragraphs 1 and 2

An extra discipline is inherent in the customer-contractor relationship and the introduction of a Trading Fund, and was intended. But it is common ground that the customer-contractor relationship will have to be carefully defined and will vary from case to case. The process of defining is now being tackled.

Paragraphs 3 and 4

The letter of objectives from the Secretary of State for Energy to the Chairman of the CEGB dated 30 November 1982 is already widely drawn in relation to nuclear power, as Sir Robin Nicholson's quotation makes clear. A formal amendment to that letter might need to be published, as was the original letter. It would be regarded as a new statement of policy and would raise questions accordingly. The consumer-oriented side of the industry could raise questions about how far CEGB financing of the AEA ought on strict commercial tests to go; and indeed the purpose of the amendment suggested is clearly to pre-empt argument by the Electricity Council. It would seem a mistake to risk stirring up controversy here by an over-formal and heavy-handed approach when good progress has been made pragmatically between the CEGB and the AEA.

Paragraph 5

Nicholson says that 'similar considerations apply to BNFL'. It is not clear that they do. BNFL is not constrained in this way by a letter of objectives, nor by statute. Certainly the Chairman, Con Allday, has not requested any similar clarification of objectives and has been generally helpful, eg on agreeing to an underlying research cost element.

Paragraph 6

It is common ground that the Authority's role as a vital source of independent policy advice will require continued Government funding of R & D. The point was recognised in the Government statement about the implementation of the AEA Review on 11 February.



Paragraphs 7 and 8

This seems to be the main difficulty. Sir Robin wants legislation to authorise the AEA to manufacture in wholly non-nuclear areas. This would row flatly against the Government's policy of privatisation and of reducing the size of the public sector. The more limited proposal to let the Trading Fund take minority stakes in joint-venture manufacturing may be easier politically, but it is mainly a political question how far the Government wishes to go. The present AEA management is not asking for more than the authorisation of minority stakes.