

file A
SUBJECT
cc Master

10 DOWNING STREET

From the Private Secretary

27 May 1985

Dear Geoff

CHAIRMANSHIP OF UKAEA

The Prime Minister saw Sir Robin Nicholson on Friday evening to discuss the Chairmanship of UKAEA. The Prime Minister said Ministers would very much like Sir Robin to take over the Chairmanship and asked whether he wanted to do it. He replied that he was interested but that he was by nature "a private sector person". It very much depended on what he was being asked to do.

The Prime Minister said the Government fully appreciated the need to secure technology transfer. In the nuclear field UKAEA already had the right to manufacture. The only difficulty lay in the area of non-nuclear technology. The Government would find it very difficult to allow UKAEA an unrestricted right to enter non-nuclear manufacture. This would be inconsistent with its policy on the role of public sector bodies and would be bound to create difficulties with private sector companies who would see themselves as facing unfair competition. She suggested that to a large degree technology transfer could be achieved by licensing and royalties. This was the route Ministers preferred though if it were shown that in certain areas this would not work Ministers would consider giving UKAEA the right to take up to a 25 per cent minority equity stake in joint ventures, subject to ministerial consent where this involved commitment of financial resources.

Sir Robin said he recognised the political difficulties in allowing UKAEA the right to manufacture in non-nuclear areas. Friction with the private sector would be inevitable. There were two main reservations to the proposition which the Prime Minister had put forward. First, he did not believe the royalty route would secure adequate transfer of technology. All the evidence suggested that it was extremely difficult to put a research idea to outside investors and to secure backing for it. They preferred to wait until the idea had been developed to the point where a product and a market for it had been established. At that point it was much easier to find outside capital. Contract research organisations were increasingly developing their ideas through equity ventures. He doubted whether even 25 per cent minority stakes would give UKAEA the scope it needed. To be effective, UKAEA

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needed to be able to manufacture in its own right so that ideas could be developed to the point where private sector investors could be brought in.

Sir Robin cited two examples. In the first, the Radio Chemical Centre, the technology had been classified as nuclear, thereby permitting UKAEA to develop it. This had been successful, leading to Amersham International, a company worth £150 million. In the second case, ion implantation machines, the technology had been classified as non-nuclear. UKAEA had tried to find UK companies to take up the idea but had not been successful. Such machines were now predominantly manufactured in the US.

Sir Robin's second reservation was about the future role of UKAEA. The organisation was at a crossroads; it would either expand or contract. In the foreseeable future there would be a decline in the nuclear research placed with it; this would be accelerated as CEGB and BNFL developed their own expertise in the nuclear field. UKAEA was a relic of the past. If it were being created today, nuclear research would not have been centralised to this degree. Unless changes were made in its role, its expertise would gradually be dispersed to the private sector, to the electricity utilities and to the reprocessing industry. This was not necessarily wrong from a national point of view but he would not be interested in presiding over an orderly contraction. This would require someone with different qualities. The alternative was to allow UKAEA to expand into new areas using its accumulated expertise. This would be bound, however, to lead to complaints from private sector companies, particularly from those whose research was unsuccessful.

The Prime Minister recognised that it would be a waste of Sir Robin's talents to ask him to take over an organisation which was contracting. She invited Sir Robin to prepare a note setting out his views on the future of the organisation and why it was essential to allow it a right to manufacture. Sir Robin agreed to provide something within the next few days.

After Sir Robin had left the Prime Minister said he was presenting Ministers with a fundamental choice about the future of UKAEA. The choice of Chairman would follow from the choice made. She doubted whether Ministers could accept a role for UKAEA which would induce Sir Robin to accept the Chairmanship. A final decision would have to be taken in the light of the note Sir Robin was preparing.

I am copying this letter to Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

*Yours sincerely
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(Andrew Turnbull)

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