PREM 19/1276

PART 2

555

Confidential Filing

British Technology Group, BTG
(formerly National Enterprise Board (NEB))

Disposal of NEB's shareholdings in Ferranti

NEB Relations with the T.U.C.

The Industry Bill.

Relations between NEB and the NRDC

INDUSTRIAL POLIC

Part 1: May 1979
Part 2: July 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~7.80.~~		~~10.7.81~~					
~~8.80~~		~~26.3.82~~					
~~11.8.80.~~		~~5.4.83~~					
~~15.8.80.~~		~~12.4.83~~					
~~21.9.80~~		~~14.4.83~~					
~~6.10.80~~		20.4.83					
~~20.10.80~~		~~21.4.83~~					
~~21.10.80~~		~~10.5.83~~					
~~27.10.80~~		~~12.5.83~~					
~~5.9.10.80~~		~~27.6.83~~					
~~30.10.80~~		~~12.7.83.~~					
~~4.11.80~~		~~20/9/83~~					
~~6.11.80~~		~~30.9.83~~					
~~15.11.80~~		~~24.1.84~~					
~~21.11.80~~		~~10.5.89~~					
~~15.1.81~~		24.2.84					
~~21.1.81~~		PT2 GWS					

PREM 19/1276

PART 2 ends:-

SS/ENERGY to CH. EXCH. 24.2.84

PART 3 begins:-

I. HARVEY to AT. 22.2.89

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
L(82) 49	26/03/1982
L(80) 19th Meeting, item 1	11/11/1980
L(80) 63	06/11/1980
L(80) 17th Meeting, item 1	29/10/1980
L(80) 52	24/10/1980

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 23/9/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 1 July 1980, columns 1305 to 1314: Ferranti Limited

National Enterprise Board: Annual Report and Accounts 1979. Information Department, National Enterprise Board, Grosvenor Gardens, London

Signed J. Gray Date 23/9/2013

PREM Records Team

CONFIDENTIAL

File with BTG chairmanship papers. DTI content that Barker should take over in addition to BTG chairmanship

AT 5/3

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

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

24 February 1984

Dear Chancellor,

I have been concerned over the past months at the manner in which figures coming from the National Coal Board change substantially over a very short period.

I wrote to Ian MacGregor at the time we were obtaining information from them to calculate what was required for the Spring supplementary estimate.

More recently, there have been further cases of figures given only a few weeks ago being changed dramatically. I therefore spoke to Ian MacGregor privately, informing him of my serious concern at the quality, speed and reliability of the National Coal Board's financial information.

He informs me that he considers that the National Coal Board is very badly organised in terms of both financial information and their ability to forecast. It is for that reason that Colin Barker has just joined the Board to oversee this area and to get it swiftly reorganised. Barker did a similar job full-time at BSC, where Ian MacGregor has told me that the quality of financial information and forecasting was equally bad when he arrived there.

He promised me that he will give a high priority to achieving a transformation in this sphere, but I am afraid that in the coming months, until the reorganisation has been completed, we will have to be very cautious in the judgement we place upon the figures that are being currently provided. My Department will be monitoring both future figures and the improvement of the system closely.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours sincerely

Peter Walker

PETER WALKER

(approved by the Secretary of State and signed in his absence)

APPOINTMENTS IN CONFIDENCE

FILE 84

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Thank you for your minute of 31 October (A083/3088) about the chairmanship of the British Technology Group. I did report to the Prime Minister your advice on Mr. Leslie Pincott and your suggestion about Mr. Walter Goldsmith. She considered Mr. Walter Goldsmith for this post, but did not think that it was quite the right thing for him.

F. E. R. BUTLER

1 November, 1983

APPOINTMENTS IN CONFIDENCE

Appts

Ref. A083/3088

MR BUTLER

Mr Tebbitt sent me a copy of his minute of 24 October to the Prime Minister about the Chairmanship of the British Technology Group.

2. I should have no objection to this appointment being offered to Mr Leslie Pincott but I did wonder whether this might be an appointment which would suit Mr Walter Goldsmith.

3. I see that it has in fact gone to a third party.

RTA

ROBERT ARMSTRONG

31 October 1983

APPOINTMENTS IN CONFIDENCE

File No

10 DOWNING STREET

From the Private Secretary

27 October 1983

CHAIRMANSHIP OF THE BRITISH TECHNOLOGY GROUP

The Prime Minister has seen your Secretary of State's minute of 24 October. She also discussed this with him after today's Cabinet meeting. They agreed that Mr. Colin Barker was a more suitable candidate, particularly for BTG's role in developing technology transfer.

I am sending copies of this letter to John Kerr (H.M. Treasury), Elizabeth Hodkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and Dr. Nicholson.

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

APPOINTMENTS IN CONFIDENCE

NOTE FOR THE RECORD

Chairman of BTG

The Prime Minister spoke last night to Lord Cockfield about Mr. Tebbit's recommendation of Mr. Leslie Pincott for the chairmanship of BTG. The Prime Minister said the Chairman would have two roles - to run down the NEB portfolio and to act as a broker between research institutions and industry in the transfer of technology. While she could see that Mr. Pincott fitted the bill for the first role, he did not appear to be sufficiently vigorous and enterprising for the second.

Lord Cockfield said he knew Mr. Pincott but had not worked with him. Pincott had come into the Price Commission when it was being run down. He shared the Prime Minister's assessment. He regarded Mr. Pincott as a capable and straightforward business administrator of the kind produced from the ESSO stable. But he was certainly not a high flyer.

The Prime Minister doubted whether anyone could fulfil the job specification, which was partly why she doubted whether there should be a BTG. She said she would talk further with Mr. Tebbit.

AT

27 October, 1983

10 DOWNING STREET

Prime Minister

Norman Tebbit has been briefed on your doubts about Pincolt. You could speak to him

(i) after Cabinet or failing that

(ii) in the House tonight before the vote on the NHS debate.

AT

27/10

10 DOWNING STREET

Prime Minister (1)

You seeking to talk to Lord Cochfield tonight about appointing Leslie Pincott to BTG. The papers are attached at Flag A

I have also investigated the degree to which a finance man as chairman supported by scientists. DTI have produced the note at Flag B.

Lord Cochfield will be at home tonight.

AT
26/10

I don't believe the Prime can do the technology part of the job. That needs someone vigorous & younger

MT

file

10 DOWNING STREET

From the Private Secretary

26 October 1983

Chairman of the British Technology Group

The Secretary of State for Trade and Industry has interviewd a number of candidates for the Chairmanship of BTG, a post which needs to be filled urgently. He has recommended the appointment of Mr. Leslie Pincott. The Prime Minister is still considering this recommendation. She has noted, however, that Mr. Pincott served on the Price Commission. As a result, she feels the Chancellor of the Duchy may well have a view on Mr. Pincott and she wants to have a word with him. I will be in touch about a time.

Meanwhile, the Chancellor of the Duchy may like to see the papers, a copy of which is attached.

ANDREW TURNBULL

Alex Galloway, Esq.,
Office of the Chancellor of the Duchy of Lancaster.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU716
Secretary of State for Trade and Industry

26 October 1983

APPOINTMENTS IN CONFIDENCE

Andrew Turnbull Esq
10 Downing Street
London SW1

Dear Andrew,

When we spoke on the telephone earlier today, I undertook to send you details of the extent to which the existing Board Members of the BTG have technical or scientific backgrounds. The details are as follows. Of the ten Board Members at present, five have a technical or scientific background. They are:

Brian Willott - PhD in Physics from Cambridge

Jim Cain - PhD in Chemistry. Worked in the pharmaceutical industry before joining the NRDC

Dr Dennis Oliver - Metallurgist by background. Technical Director at Pilkingtons

Professor Leonard Maunder - Professor of Mechanical Engineering at the University of Newcastle.

Sir George Macfarlane - former Controller of Research at MOD. Electronics background from RSRE.

2 It is worth pointing out that both the Chief Executive and the Deputy Chief Executive, who are Board Members and are listed above, have technical or scientific backgrounds. In addition, of the three Group Directors in the BTG, two are similarly qualified, one in engineering and the other in chemistry. Under these three Group Directors are the three Technology Transfer Divisions which would form the basis for the principal new role of the BTG. In the Science Division all nine assessment staff have first degrees, and eight are PhDs; in the Engineering Division, all six staff have first degrees; and in the Information Technology Division there are nine staff with first degrees, one of whom is also a PhD.

3 I hope this provides the background information you wanted.

Yours ever

Callum McCarthy

M C McCARTHY
Private Secretary

10 DOWNING STREET

Prime Minister (1)

Mr Tebbit has interviewed candidates for the Chairmanship of BTG and recommends Mr Leslie Pincott. Sir Robert Armstrong has no objection but has suggested Walter Goldsmith might be considered.

One of Mr Tebbit's reasons for choosing Mr Pincott is that the latter will work to the remit of running down the NEB portfolio and stick to the BTG's new limited role. This hardly seems WG's style.

∴ Agree Mr Pincott?

AT 25/10

I see he was on the Price Commission. I will have a word with Arthur Cockfield. I do NOT think Price's record quite right for this job.

JH 932

APPOINTMENTS IN CONFIDENCE

A

PRIME MINISTER

CHAIRMANSHIP OF THE BRITISH TECHNOLOGY GROUP

In his minute to you of 16 September Cecil Parkinson said he was interviewing potential candidates for the Chairmanship of the British Technology Group (BTG) and hoped to recommend a name to you quickly. This is now very urgent since Sir Freddie Wood's health is clearly deteriorating and we have already had to ask him to hang on until the end of this month to give us more time to find a successor.

2 I have therefore given this a good deal of priority and have interviewed three potential candidates. One, Mr Colin Corness, the Chairman and Chief Executive of Redland, who impressed both Cecil and me, is unwilling to accept the appointment on the terms on which it is offered. I mention this since it perhaps illustrates that this may not be an easy appointment to fill.

3 Of the other candidates, I recommend Mr Leslie Pincott whom I knew in his capacity as Vice Chairman of Remploy (CV attached). He is a chartered accountant who had a distinguished career with Esso, rising to Managing Director of Esso Petroleum Co Ltd. He was non-executive Chairman of Stone-Platt Industries, a position in which he was well regarded despite the demise of the company. He as also held other relevant directorships including investment companies.

4 Of the other candidates, I was also taken by Mr Colin Barker who is presently Managing Director, Finance, of BSC, to which he was recruited by Mr MacGregor (CV attached). He is now looking for an appointment which would allow him to get back to running an operation as he did at ITT and STC. Although he is an impressive man, I judge his particular qualities are not quite those we are looking for for the BTG.

5 I am satisfied that Mr Pincott has the right sort of experience to run the BTG and understands the way that we want it to be changed to fulfil the new role we recently announced. In particular, I am clear that he understands, and is prepared to carry through without any inflation of the task, the need to liquidate the portfolio acquired from the NEB and to concentrate on the important redefined role for the BTG of technology transfer. I believe he will do this. I hope you will agree to my announcing his appointment by the end of the week so that Sir Freddie Wood's successor will be known before his retirement.

6 Mr Pincott has not yet been cleared at official level with the MPO, but steps are in hand to complete this process.

7 I am sending copies of this minute to the Chancellor of the

Exchequer, the Secretary of State for Education and Science and to Sir Robert Armstrong and Dr Nicholson.

NT

N T

24 October 1983

Department of Trade and Industry

APPOINTMENTS IN CONFIDENCE

Annex A

PUBLIC APPOINTMENTS: INTERNAL NOMINATION FORM/RECORD SHEET (PAN1)

Sponsoring Official
Name Dept.

FOR OFFICIAL USE ONLY	Source Dept:
1.	
2.	Dept. file no:
3.	

SECTION A: NOMINATION Note to sponsors: Please complete as much of this section as your knowledge of the person allows. If your information is limited, however, please suggest any likely contacts who might be able to provide supplementary details:

SURNAME	FORENAMES	TITLE
PINCOTT	LESLIE RUNDELL	MR

DATE OF BIRTH	MARRIED YES/NO	CHILDREN YES/NO	EDUCATIONAL/PROFESSIONAL QUALIFICATIONS/DECORATIONS
27.3.23			FCA FInst MSM CBE

HOME ADDRESS
6 Lambourne Avenue
Wimbledon SW19 7DW

TELEPHONE NUMBER

OFFICIAL OR BUSINESS ADDRESS
10 Grafton Street
London W1X 3LA

TELEPHONE NUMBER 01-493 7000

PRESENT OCCUPATION

1975 Remploy Director
1979 Remploy Vice Chairman

POSITION AND DATE TAKEN UP

EXPECTED AVAILABILITY

- [ ] Full time
- [ ] Part time
- [ ] If part time, days per month available

PREVIOUS MAIN JOBS*

Who's Who 1983

PINCOTT, Leslie Rundell, CBE 1978. Vice-Chairman, Remploy Ltd, since 1979 (Director, since 1975); b 27 March 1923; s of Hubert George Pincott and Gertrude Elizabeth Rundell; m 1944, Mary Mae Tuffin; two s one d. *Educ:* Mercers' Sch, Holborn. Served War, Royal Navy, 1942–46. Broads Paterson & Co. (Chartered Accountants), 1946–50; joined Esso Petroleum Co. Ltd, 1950; Comptroller, 1958–61; Asst Gen. Manager (Marketing), 1961–65; Dir and Gen. Manager, Cleveland Petroleum Co. Ltd, 1966–68; Standard Oil Co. (NJ), Exec. Asst to Pres., and Inter-Am. Chm., 1968–70; Man. Dir, Esso Petroleum Co. Ltd, 1970–78; Director, George Wimpey & Co. Ltd, 1978–; Canada Permanent Trust Co (UK) Ltd, 1978–; Chm., Stone-Platt Industries, 1980–82; Chm., Edman, 1981–82; A Dep. Chm., 1978–79; Chm., 1979–80; Price Commn, Chairman, Hundred Gp of Chartered Accountants, 1978–79; Oxford Univ. Business Summer Sch, 1975–78; Printing Industries Sector Working Party, NEDO, 1982–; Pres. District Heating Assoc., 1977–79; Mem., BR Southern Region Bd, 1977–; Vice-Pres., English Schs Athletics Assoc., 1977–; Mem., The Pilgrims, 1971–. FCA, MInstMSM; CBIM. *Recreation:* tennis. *Address:* 6 Lambourne Avenue, Wimbledon SW19 7DW. *Clubs:* Royal Automobile, Hurlingham.

Dof Ds 1983

PINCOTT, Leslie Rundell, CBE FCA, MInstMSM CBIM BC
6 Lambourne Avenue, Wimbledon, London SW19 7DW Tel. 01-947 1305
British Railways - Southern Region Board
Edman Investments Ld (chmn)
George Wimpey Ld
Remploy Ld (vice chmn)

KIND OF SERVICE NOMINEE IS SUITABLE FOR

- [ ] Deliberative function (eg Tribunal, Committee)
- [ ] Executive Action (eg Public Board)
- [ ] Appointment of special responsibility (eg Chairman of major body)
- [ ] Local Committee only

OTHER RELEVANT EXPERIENCE* (~~eg charitable, voluntary or~~ committee work)

1978 to date	George Wimpey PLC	Non-Executive
1978 to date	Canada Permanent Trust Co (Toronto)	Non-Executive Chairman
1978 to 1980	Canada Permanent Trust (UK) Ltd	Non-Executive Chairman
1980 to 1982	Stone-Platt Industries PLC	Non-Executive Chairman
1982 to date	Edman Investments PLC	Non-Executive Director

PAN 1

*EXCLUDE details published in standard reference books eg Who's Who - MPO will provide

"RISING STAR" CLASSIFICATION
Should the nominee be considered as a "Rising Star" ☐ Yes ☐ No

PEN PICTURE: Please indicate special skills, aptitudes, characteristics, interests and experience of the nominee.

See attached Management Consultants' report prepared for DTI
"At first sight quiet and reserved but he is intelligent, and forceful both in manner and in debate. Businesslike, and not loquacious, he should make an outstanding contribution in committee work provided he is not on unfamiliar ground." (DT 1973)

"He is an extremely competent executive whom I rate bery highly indeed, and I think he would bring a lot to any organisation with which he was involved. Although basically he is an accountant by background, he has widened his horizons so much that he can now deal with virtually any type of problem, except for those of a more exotic technological nature. If, therefore, in 1978 the Government should happen to be looking for someone who could help with one of the major nationalised industries, or government influenced industries, I think you could do a lot worse than consider Leslie Pincott." (On advice to PAU 1976)

DTI considers Mr Pincott to be a very high-calibre executive, professional, dedicated, somewhat abrasive, very much the North American style, as might be expected. A little uncertainty about the breadth of his outlook (though Dr Pearce speaks well of this). Mr Pincot is the corporation man par excellence, devoted to Esso's interests but not concerning himself overmuch with what lies beyond. (Mr Philip Ridley CBE, Dep Sec DTI)

Your signature ..... Date .....

SECTION B: RECORD SHEET
Present and previous Government Appointments

DATE	APPOINTMENT	POSITION	COMMENTS
1975 -	Remploy	Director	
May 1977-	British Railways Advisory Board (Southern Region)	Member	
1978-79	Price Commission	Deputy Chairman	
July'79-80	Price Commission	Chairman	
1979 -	New Price Commission	Chairman	Re-apptd until 30.4.80
1979 -	Remploy Ltd	Vice Chairman	Re-apptd 28.4.82
1982	Printing Industries Sector Working Party	Chairman	
1982	National Economics Development Office	Chairman of WP	

REPORTS/ASSESSMENTS OF PERFORMANCE [MPO will obtain if another Department is concerned]

He had risen through Esso to the top and then retired early. He had just become Chairman of Stone Platt which was going through a very difficult time. It was doubtful, therefore whether he would be prepared to leave. He was nevertheless extremely able and urbane

Mr Pincott did a good job at Stone Platt. No blame attaches to him for its demise.
(on advice from Bank of England, July 1982)

Please return when completed to:-

Annex B

COLIN BARKER

Age 57

Educated at Hull Grammar School

London University Bachelor of Commerce

1948-1963	Retail Cooperative Movement
1964-1967	Ford Motor Co Ltd
1968-1970	Director of Finance: Associated Portland Cement Manufacturers (now Blue Circle Ltd)
1971-1975	Director of Finance: STC
1976-1979	STC: Director of Marine and Submarine Systems
1979-1980	Assigned to ITT Europe Inc as Group General Manager of all ITT consumer products in Europe
November 1980	Joined BSC as Managing Director Finance

Ind Pol : BTG

Pt 2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

6 October 1983

Sir Frederick Wood
Chairman
British Technology Group
101 Newington Causeway
London SE1 6BU

Dear Frederick,

Brian Hayes has told me that you have with great kindness and understanding agreed to continue as Chairman of BTG until the end of October. I wanted you to know how grateful I am to you for doing so. I was extremely reluctant to make this request of you and would not have done so had there been any alternative. But the statutory position requires us to have a Chairman, and as you know, we have yet to identify your successor. I should, however, like to make it clear that we are not expecting you to carry on assuming the full duties of the Chairmanship during this last month of your tenure, and to thank you again for being so ready to help in a difficult situation. I am very grateful.

Yours ever,

Cecil

NBPM
AT 3/10

✓CC NO

Treasury Chambers, Parliament Street, SW1P 3AG

30th September 1983

Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
London SW1E 6RB

Dear Cecil

BRITISH TECHNOLOGY GROUP: FUTURE FINANCING

At our bilateral last Thursday we agreed that the existing PES provision for the BTG should be deleted and that officials should agree a formula covering the future financing of the BTG if it does not achieve its self-financing target before the NRDC's accumulated surplus is exhausted. I attach a formula, with which I understand your officials are content. I should be grateful for confirmation that you can accept it.

I am copying to the Prime Minister, Secretary of State for Education and Science, Sir Robert Armstrong and Robin Nicholson.

Yours ever
Peter

PETER REES

Ind for BTG Pt 2

DRAFT FORMULA FOR FUTURE FINANCING OF THE BTG

The NEB "inheritance" is to be disposed of as soon as possible and the present intention is that the proceeds (minus the cost of disposal) will accrue direct to the Exchequer. The BTG in its role of promoting technology transfer should be self-financing. The existing technology transfer agency (NRDC) has been self-financing for some years and currently has an accumulated surplus of £21.85 million. However, even under the present monopoly right arrangement it is expected that licence income will fall over the next few years as existing patents expire. Added to this is the uncertainty about the financial arrangements which are to replace the monopoly rights and the role in relation to the regions is undecided. There may be a gap between income and expenditure until the BTG builds up new sources of income from its new activities. At the moment it is impossible to say how large that gap will be and how long it will last for. Given these uncertainties and the NRDC's accumulated surplus the BTG will not have a PES provision for the next three years and the existing accumulated surplus will be used first to cover any shortfall. If, following annual consideration of the BTG's Corporate Plan, it appears that this will be insufficient to tide the BTG over until it reaches the point of becoming self-financing, the BTG's financial requirements, including the case for a PES provision and/or retention of some of the disposal proceeds, will be re-considered.

CC ~~NO~~

(4)

Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG MCS 21/9

Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
Department of Trade and Industry
Ashdown House
1 Victoria Street
LONDON
SW1E 6RB

20 September 1983

Dear Cecil

FUTURE OF THE BRITISH TECHNOLOGY GROUP

Thank you for sending me a copy of your minute of 16 September to the Prime Minister.

I commented about the detail of your proposals in my letter of 18 July and have only one point to add. The BTG must henceforth be self-financing. As well as surrendering all disposal proceeds to the Exchequer from the sale of the "inheritance" it must finance its continued technology transfer services from current income. While income will not match expenditure in every year I would expect the BTG to build up a financial reserve sufficient to carry it through lean years without recourse to the Exchequer. This means that I could not accept your bid for £6 million per year of continued funding for the BTG, which you have made in your PES submission. My agreement to the revised BTG role that you propose is subject to the deletion of this provision.

I am copying to the Prime Minister, Secretary of State for Education and Science and Sir Robert Armstrong and Dr Nicholson.

Yours ever

PETER REES

IND POL: BTG Pt 2

CONFIDENTIAL

c.c. Mr. Owen

10 DOWNING STREET

From the Private Secretary

19 September, 1983

Future of the British Technology Group (BTG)

The Prime Minister has noted your Secretary of State's minute of 16 September about the future role of the British Technology Group (BTG).

The Prime Minister agrees to your Secretary of State's proposals. She has minuted that she hopes that the role of the BTG will be kept small and modest.

I am sending copies of this letter to Margaret O'Mara (HM Treasury), Imogen Wilde (Department of Education and Science), and Robin Nicholson and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

SCHOLAR

Jonathan Spencer, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

010 cc BI

cc N.O

CONFIDENTIAL

Prime Minister (1)

A scaled-down proposal.

JU532

PRIME MINISTER

Yes - I hope it will be kept small or moderate-size. Agree? MCS 16/9

FUTURE OF THE BRITISH TECHNOLOGY GROUP

We need to reach an early decision on the future of the British Technology Group (BTG). After our last discussion about this, I thought it would be helpful to wait until after the seminar on science, technology and industry before asking you to consider it again. I hope you felt, as I did, that the seminar threw fresh light on the background to our decision. I have also met the BTG Board and got a clearer view myself of BTG's activities and skills.

2 I thought the seminar made it pretty clear that we cannot as yet look to the private sector alone to take the results of publicly funded research and translate them into the products for exploitation in the market place. The venture capital companies have a role to play, and it was encouraging to hear from Robin Caldecote and David Cooksey about the growing involvement of their companies in high technology ventures. But both made it clear that, in general, venture capital is only interested in new developments when they are close to the point of exploitation. Both made the point that there was a continuing need for some agency to help with the long process of packaging, protecting and eventually marketing new ideas. The big companies could in theory play this patient role. But in practice they prefer to wait until ideas are near the exploitation stage. John

no advert. for NRDC!

Harvey-Jones talked of ICI's patience in developing pyrethrins from 1974. He might have mentioned that NRDC have been involved with this technology for the previous 13 years to help bring it to the point where ICI recognised its commercial value.

3 The initiative for commercial development can of course come from the researcher himself or from his university or research institute. A number of speakers on Monday said that the prospect of financial reward was the most potent incentive to enterprise, and I am sure that the ending of BTG's monopoly will encourage researchers to try for exploitation themselves. But I am equally sure that many will not, that they will be deterred by the long time-scale needed to bring ideas to the market place and by the high risk of failure, and that they will not without help or encouragement forge for themselves the direct links with industry that are needed. University researchers have always had freedom over UGC funded research: the increasing number of inventions being offered to the BTG voluntarily by them shows that they feel the need for some agency to help them. The universities and research establishments are building up these skills, but for the most part they simply do not yet have the in-house expertise to do the job effectively. There is of course the further point that Government is the ultimate owner of intellectual property rights in publicly funded research and can scarcely avoid some responsibility for protecting them and helping to ensure that their value is maximised by private sector exploitation.

4 For these reasons I am convinced that if we were now to deprive the BTG of any role in the development of publicly funded research for the market place we should be creating a gap which

no one else at present will fill. They have the range of skills that is needed to do a particular job that needs doing. That job is, essentially, to offer a service to both the researcher and the industrialist or financier; to bring them together where there are seen to be opportunities for commercial exploitation; to provide a patent service for inventors which will give the necessary protection of intellectual property for their benefit and the country's; where there is a need for further development work before ideas can be patented or commercially exploited, to help with that; and very occasionally, and only where other means of exploitation cannot be found, to help start up new companies based around the researcher himself. They will also continue with their work of building up a data base on university inventions, to be made more readily available to industry than is at present the case.

5 This is a far more modest role than the BTG have filled in the past and it will be one based on free collaboration instead of the resented right of first refusal. Discussions I have had with a number of BTG's customers indicate clearly that they have the skills to carry it out successfully. For example, the exploitation of nuclear magnetic resonance, mentioned more than once in the seminar, was the BTG's work and involved pulling together research teams at three British universities. GEC-Picker, who share the rights with the BTG, have now engaged them to license the whole range of technology on their behalf.

6 The activities of BTG inherited from NEB will of course be dropped: they are disposing of their existing investments as fast as possible and the Exchequer is benefitting from the proceeds. As this process is completed, they will become a much

smaller organisation, spending only modest amounts of money within a tight budget and in all probability showing in time a net profit to the Exchequer. I would not wish to rule out the possibility of their eventually becoming a private company, though that must lie some way ahead.

7 I hope very much that you will agree that on this basis we should now go ahead, announce the BTG's new role and appoint a good chairman to carry it out. Certainly we need to decide quickly. The BTG are marking time and, I believe, becoming demoralised. Freddie Wood is very seriously ill and really must be replaced very soon. I am interviewing potential candidates and hope to be able to recommend a name to you quickly. Meanwhile I hope you will agree in principle to these proposals for BTG's future.

8 I am sending copies of this minute to the Chancellor of the Exchequer and the Secretary of State for Education & Science, and to Sir Robert Armstrong and Dr Nicholson.

C.P.

C P

16 September 1983

Department of Trade & Industry

CONFIDENTIAL FILE da

10 DOWNING STREET

From the Private Secretary

DR. NICHOLSON

Government R & D Capability

The Prime Minister has seen your minute of 2 August (W.0493). She agrees that you should carry out the examination and report described in the draft remit attached to your minute.

I am copying this to Richard Hatfield.

T. FLESHER

11 August 1983

CONFIDENTIAL

cc NO

Prime Minister

Agree that Dr Nicholson should carry out the examination and report described in the draft remit at Flag A?

Yes

GWFSR 2/8

W.0493

PRIME MINISTER

GOVERNMENT R & D CAPABILITY

In my minute of 6 July to you about the British Technology Group, I drew attention to the continuing massive role of the State in carrying out research and development. I would like to develop the point further.

2. Experience world-wide shows that to get the best value from R & D expenditure, it must be carried out in organisations which are:

(a) flexible and encouraging of creativity and the taking of risks;

(b) capable of at least initiating the exploitation process;

(c) as close as possible to the international market place which they serve.

3. Yet one-quarter of this nation's R & D is carried out in the Government's own laboratories which scarcely meet the criteria given above. They employ over 20,000 scientists, engineers and technicians, again about one-quarter (excluding the universities) of the nation's trained manpower engaged in R & D.

4. Although there are undoubtedly legitimate reasons for Government to do some R & D in-house, there would appear to be major disadvantages in doing so large a fraction of the nation's R & D this way. For example, most of the results have to be handed on to others before exploitation can take place. Lack of staff mobility out of the Civil Service and reductions in manpower give little room for new blood in an ageing research population; new research areas of promise are held back.

5. Admittedly privatisation has resulted in some significant pieces of R & D capability being moved to the private sector. But this approach has probably gone as far as it can, because the short term problems of further privatisation of Government research laboratories appear to overwhelm any long term advantages which have only been vaguely identified.

6. I believe the way forward lies in looking at the long term first. We should develop a clear view of what magnitude of research capability in, say, 10 years' time, Government needs to have in its own establishments, as opposed to the capability that is better bought from the private sector. Once a long-term view is developed, it will be up to Departments to make decisions on how to reach the agreed future point from the present position.

7. I would expect the overall result would be a reduction in Government in-house R & D capability comparable with the reduction in the role of the public sector in manufacturing and service industries which the Government is presently undertaking.

8. If you agree, I would like to take the initiative in developing this long-term view and presenting it to you because I believe the matter can best be initiated from the centre of Government. The subject is complex and contentious but I would plan to provide a draft report that Departments could comment on, after you yourself had first seen it, by the end of the year. I attach a draft remit that you may wish me to finalise after seeking comments from appropriate Ministers.

9. I should add that I recognise the need for a parallel move from the private sector to become more far-sighted and generous in its support of R & D. I expect this to emerge as one of the principal discussion points in your seminar in September, after which an ACARD study might be appropriate.

10. A copy of this minute goes to Sir Robert Armstrong.

RBN.

ROBIN B NICHOLSON
Chief Scientific Adviser

2 August 1983

A

DRAFT REMIT

GOVERNMENT R & D CAPABILITY

As part of his role in providing advice on scientific and technological issues, and particularly relating to improving the commercial exploitation of the nation's research and development, the Chief Scientific Adviser, Cabinet Office, is asked to examine and report on:

the criteria by which Central Government should allocate R & D tasks to its own establishments in preference to other, mainly private sector, bodies;

the likely requirements of Central Government for its own in-house research capability in the 1990s

the options for future better use of any R & D capability which is surplus to Government's needs for in-house research

and to provide a preliminary report by December 1983.

Agreed MT

IND Pos
BTG Pk2

Mtg on 1/8
1200-1215
↓
CANCELLED

10 DOWNING STREET

Prime Minister

Cecil Parkinson would like a general chat – focussing on the BTG, and on the timing of a decision against the background of your science and technology seminar in early Sept.

MCS 27/9

CONFIDENTIAL

PA

Mrs 27/9

W.0471

22 July 1983

MR SCHOLAR

THE FUTURE OF THE BRITISH TECHNOLOGY GROUP

I have seen the draft of the further paper to the Prime Minister on the British Technology Group which I understand the Secretary of State for Trade and Industry proposes to submit to her later today.

2. The new paper essentially repeats the proposals in the Secretary of State's minute of 4 July but provides a great deal of detailed and quantitative amplification of his proposals.

3. Thus, I continue to support the case made by the Secretary of State for the retention of BTG in its new form, but the comments I made in my minute to the Prime Minister of 6 July are still relevant. In particular I believe that the three further suggestions I made in paragraph 5 of my previous minute would enhance the likelihood of a successful future for a re-launched BTG.

4. I think the Prime Minister might wish to hear news on the need for a re-launched BTG from the private sector, and it might be helpful to draw her attention to the letter from Mr Tindale, Deputy Chairman of Finance for Industry (now investors in industry) which was attached to Mr Jenkin's minute of 9 May. She might also find it valuable to talk to Mr Tindale on the subject, or to his Chairman, Lord Caldecote.

5. I am copying this minute to Sir Robert Armstrong.

for ROBIN B NICHOLSON
Chief Scientist

(Dictated by Dr Nicholson and signed in his absence)

Ind Pol
British Technology Group Pt 2

CC NO (2)

Prime Minister

MCS 19/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Cecil Parkinson MP
Secretary of State for Trade & Industry
Ashdown House
123 Victoria Street
LONDON
SW1

18 July 1983

Dear Cecil

FUTURE OF THE BRITISH TECHNOLOGY GROUP

Thank you for sending me a copy of your minute of 4 July to the Prime Minister.

Perhaps I could offer some thoughts on the finance and management of the BTG which will be relevant if it is decided that it should continue.

I agree that the growth of private venture capital organisations has greatly reduced whatever need there may have been for the NEB-style investment function, and that the emphasis should henceforth be on what you call "technology transfer", that is, helping to get inventions carried through into industry. I should welcome the monitoring you propose - something that has been markedly absent in this field. We should need to keep under review the case for maintaining the organisation in the light of its results.

I agree that the BTG should dispose of its inherited investments as quickly as possible and surrender the proceeds to the Treasury: and that if it continues it should thereafter be basically self-funding. That would probably be a better discipline than the alternative, which our officials also considered, of requiring it to surrender all its current receipts and providing it with an annual grant-in-aid to cover administrative expenses and patenting costs. But self-funding should not mean exemption from all controls on staff numbers and remuneration, which I believe should still be handled very much as for a grant-aided body.

If the Group required a small subsidy from the Department's votes it would of course have to be found from within existing resources: I would suggest that it should be a charge on your Science and Technology Budget. Subject to that we could discuss the actual requirement, if any, in the course of the Survey. Likewise if it were to generate a surplus we might want it to pay a special dividend from time to time to the Exchequer. There are some details of the financial regime which would still need to be worked out by our

officials, and for the moment it might be best to omit paragraph 7 of your proposed statement.

We in the Treasury know little of the man you propose to appoint to succeed Sir Freddie Wood. But looking at his CV, I am sure that it would be important, if he were appointed, that Mr Stevenson should be supported by a Deputy or Chief Executive with a strong financial background. The organisation needs better financial management. The opportunity should also be taken to make some changes in the senior permanent staff.

We shall need, as you say, to look at the BTG's regional role in the light of the second report from the interdepartmental Review of Regional Economic Policy, which has just been submitted. On the face of it a regional role would not seem to fit very easily with the main responsibilities which you have identified for the Group. But I am conscious that the BTG may be able to do things in the regions for which you would otherwise be under pressure to provide additional civil servants.

I agree that if it is to continue early legislation to regularise the position of the BTG is important. If a place can be found in the 1983-84 programme for an "Industrial Development (Miscellaneous Provisions) Bill" it might perhaps be possible to include in it a clause giving the BTG a legal existence, and allowing us to unify its accounts?

One final thought. Under its new terms of reference the BTG would not, after the first year, be primarily a holding company as the name "British Technology Group" suggests. Would not "British Technology Services" be more appropriate? This would serve to emphasise its proper role.

I am sending copies of this letter to the Prime Minister, Keith Joseph, Willie Whitelaw and Sir Robert Armstrong.

Yours ever

Peter

PETER REES

INDUSTRIAL POLICY
BTG PPZ

SUBJECT

cc Master

File

cc. N. Owen

John Grieve (Home)

Robin Nicholson (CO)

10 DOWNING STREET

From the Private Secretary

13 July 1983

Dear Jonathan,

Future of the British Technology Group

The Prime Minister and your Secretary of State had a discussion this morning about the future of the BTG.

The Prime Minister said that she entirely agreed that the BTG should lose its first refusal right, and should be told to dispose of 60 companies preferably within the next twelve months. The crucial issue was to cause researchers to look for commercial opportunities for the products of their work. She did not believe that a Government-funded body like the BTG would be able to do much to bring this about. The BTG was the successor of the NRDC, which, in spite of a number of modest successes, had failed on the big opportunity, the exploitation of cloning. A bureaucratic body like the BTG would simply not know whether an invention was marketable. She did not see why the BTG was needed, when there were already a number of overlapping agencies in this area: what would the relationship, for example, be between the BTG and those divisions in the Department of Industry which were giving one-third grants for new technology, and spending £180 million? What would be the relationship with Finance for Industry, the Science Parks, the Alvey Committee's work, and SERC? The Prime Minister said that she was opposed to the BTG entering partnerships, and raising money from the market. She felt, too, that the objectives set out in paragraph 8 of your Secretary of State's minute of 4 July were far too ambitious: it would, for example, be a gargantuan task to make sure that those in universities, industry and financial institutions "were fully aware of commercially promising ideas from research projects". Why should the BTG fund development work, if a company came along with a project, like ALARM? She doubted whether there was, either in the United States or in this country, any appreciable spin-off in the civil area from research in MOD and defence establishments.

Your Secretary of State said that he had deliberately put a vague paper to the Prime Minister, since he believed that the right approach would be to appoint a Chairman for the BTG, with specific objectives, and to ask him to report within three months as to the size and type of organisation required to meet these objectives.

/ Two

Two thousand approaches a year were being made to the BTG in their NRDC role. There was a high failure rate, but without the BTG there would be a 100% failure rate. Many of the organisations to which the Prime Minister had referred had themselves specifically said that there was a need for an organisation of the BTG kind. The number and competence of venture capital companies, although improving, was still relatively weak compared with the potential opportunities available. Both ACARD and FFI had confirmed this. Funds were available now for glamorous projects with a quick pay-back; but there was no source of funds for less obviously attractive research and development opportunities of the kind currently funded by the BTG. There was no question of the BTG funding a project like ALARM. Its current funding was all financed from its own resources. He would put a further paper to the Prime Minister, explaining how the Science Parks, Department of Industry, SERC, UGC and so on all related to one another; together with a new proposal for the Chairman and the objectives of the organisation.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Trade & Industry.

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

12 July 1983

Dear Cecil,

FUTURE OF BTG

You copied to me your minute of 4 July to the Prime Minister on this subject, and the proposed draft statement.

I welcome the statement and in particular what you propose to say about consultation on the new arrangements to govern exploitation of Research Council funded research. I gather that officials here have suggested a small drafting change, to reflect this Department's lead role in these joint consultations with the Councils and the various HE bodies, which yours find acceptable. Subject to that, I am content.

Copies of this letter go to recipients of yours.

Yours,
Keith.

IND POL: BTG: Pt 2

CONFIDENTIAL

Jce rc

bc JG-CSO, HMT
Dr. Nicholson
CRS

10 DOWNING STREET

From the Private Secretary

11 July 1983

Future of the British Technology Group (BTG)

The Prime Minister was grateful for your Secretary of State's minute of 4 July about the future of the BTG.

The Prime Minister's general reaction was that these proposals are far too vague. The Prime Minister believes that the BTG would have great difficulty in judging what were in fact the ideas which "showed promise but were insufficiently advanced to be taken up by industry for commercial exploitation", and which deserved in consequence to be funded by the BTG. She also thinks that it would be difficult in practice to draw together exploitation of parallel research projects being carried out at a number of different institutions; has doubts about the BTG providing a patent licensing service to universities and others who would prefer to work in partnership with the BTG rather than hand over rights to them; and is not attracted to the proposal that BTG's success should be judged by the amount and quality of the technology transfer in which they are engaged rather than by any set financial return; and she doubts the realism of the estimate that BTG might be self-funding within five years. Finally, the Prime Minister dislikes the idea of the BTG engaging in joint ventures, funding early development work and financing in exceptional cases start-up companies; and she thinks it would be necessary to set a ceiling on their staff numbers from the outset.

The Prime Minister has asked for a meeting to discuss these issues and we will be in touch with you soon to arrange this.

M. C. SCHOLAR

Jonathan Spencer Esq
Department of Trade and Industry

PRIME MINISTER

(1)

This paper is much too vague. We must have a meeting on it

BTG

1. Please see:

a) Cecil Parkinson's proposals (Flag A)

and comments, by

b) Dr. Nicholson (Flag B)
c) John Sparrow (Flag C)
d) Nick Owen (Flag D)

2. Agree

(1) A smaller BTG should continue to exist, its size to be determined following the new Chairman's proposals?

(2) Its objectives should be those listed in para 8 of Flag A?

(3) It should lose its first refusal right (para 7)?

(4) It should be told to dispose of 60 companies within the next 12 months?

(5) ~~As~~ In the way suggested by John Sparrow (para 2 of his minute)?

(6) It should be permitted to retain its income from technology transfer (not from disposals) (see para 3 of minute and para 7 of draft statement in Flag A) and be told to become self- financing within 5 years (para 10 of Flag A)?

(7) It should be allowed to do some funding itself (para 11 of Flag A)?

?

/ (8)

(8) There should be a once-and-for-all capital restructuring (para 7 of draft statement in Flag A), after which DTI and Treasury must stand back (para 5(a) in Flag B)?

(9) It should be judged by its financial return not by the growth of technology transfer etc. (para 1 of Flag D)?

(10) It should be able to take minority equity stakes (para 5(b) in Flag B)?

(11) Its goal should be privatisation?

(12) It should continue to have a regional role (para 6 in Flag B)?

(13) Dennis Stevenson should be the new Chairman? No

(14) All this should be the subject of early legislation?

(15) Announcement by written PQ?

MCS

8 July 1983

C

cc NO

2 pps

CONFIDENTIAL

Qa 06411

To: PRIME MINISTER

6 July 1983

From: JOHN SPARROW

British Technology Group

1. I have seen a copy of Cecil Parkinson's minute to you of 4 July. I have also seen (and agree with) Robin Nicholson's note to you today.

2. I have two points to add. The disposal of the inherited portfolio of some 60 companies will be a major undertaking. To recruit someone from the City for this purpose, presumably on a temporary basis, and probably without adequate seniority within BTG, could well prove ineffective. A better course might be for BTG to put all its investments into one holding subsidiary, thereby freeing mainstream BTG management for its mainstream future task; and for the Board of BTG to appoint one or more merchant banks to act for it in conducting a programme of sales that combined expedition with optimal receipts. The responsibility for ensuring speedy and effective disposal would be clearly placed upon the BTG Board.

3. My second point relates to the proposal that Dennis Stevenson becomes Chairman. I do not know him personally: people who do speak highly of him, and he seems to have the attitudes, vigour and track record that we need.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JS.

CONFIDENTIAL

B

cc/NC

W.0416

PRIME MINISTER

THE FUTURE OF THE BRITISH TECHNOLOGY GROUP

1. I have seen a copy of the minute to you (JU926 of 4 July) from the Secretary of State for Trade and Industry and would like to comment. A strong case is made for the retention of BTG. I support this providing a complete break with the past is made.

2. The case for BTG is focussed on the need to improve the exploitation of publicly-funded research, particularly that in universities. The evidence collected by the recent ACARD Report "Improving Research Links between Higher Education and Industry" which you commissioned, supports the view that too often there is a gap between research and those capable of commercialising it.

3. BTG can help to "fill" the gap, not by providing all the resources needed, but by demonstrating, in competition and co-operation with the private sector, that profitable exploitation of publicly-funded research is possible. This demonstration is especially needed in longer-term, higher risk/higher reward projects where the "cherry-picking" activity of the existing private sector is seen to greatest disadvantage.

4. In the past BTG has shown all the sloth and leaden-footedness characteristic of a state-owned monopoly. To convert it into an enterprising and dynamic organisation is a formidable, but not impossible, task. But BTG will need to be freed from the previous restrictions in order to exploit fully its skills and expertise.

5. The Secretary of State's proposal recognises two of these restrictions and rightly proposes the removal of the monopoly rights of first refusal and the appointment of a new entrepreneurial Chairman. But I believe he needs to go further in three areas:

(a) BTG's enterprise must not be subject to continuing petty oversight and second guessing from officials in DTI's sponsor divisions and in the Treasury: a once and for all financial restructuring must follow the Secretary of State's approval of the new corporate plan and thereafter BTG should operate at arms' length from Government; Finance?

(b) BTG must be as responsive to customers' needs as the private sector: the right to take minority equity stakes (on a fully commercial basis and in partnership with private sector equity) is an essential feature of this responsiveness; Finance?

(c) BTG's eventual reward for success must be privatisation rather than elimination if staff morale and performance are to be equal to their task: the technology transfer industry will by then be large enough to easily accommodate a slimmed down BTG.

6. Finally, I note from the draft statement attached to the minute that BTG's regional investment role will continue for the time being. To the extent that this implies making investments that do not satisfy BTG's future commercial criteria, such activity should be funded by Government on a fee basis so as not to deter BTG from its primary task or tempt it to return to its old non-commercial habits.

7. As a postscript, can I comment that paragraph 5 of the Secretary of State's minute draws attention to the continuing anomaly of the massive State role in a function like research which requires creativity and enterprise if it is to be successful; I shall minute you separately on this matter.

8. I am copying this minute to Sir Robert Armstrong and to John Sparrow.

RBN

ROBIN B NICHOLSON
Chief Scientist

Cabinet Office
6 July 1983

D

CONFIDENTIAL

5 July 1983

MR SCHOLAR

cc Mr Mount

FUTURE OF BRITISH TECHNOLOGY GROUP

Mr Parkinson's note fails even to mention the option of privatising the BTG, once its NEB assets have been disposed of in a year or so. There is no good reason why the BTG need remain in the public sector. The NRDC side of the business has demonstrated that successful technology transfer can be a profitable business. No-one doubts that the services which NRDC provide are in the national interest. This is not an argument for public financing; on the contrary, because the NRDC functions are so important, they should be guided and stimulated by commercial pressures. It is not explained why (at paragraph 9 of Mr Parkinson's note) the BTG cannot be judged by its financial return, or how the "amount and quality of technology transfer" which it achieves can be satisfactorily judged by any other way.

One reason why DTI want to retain BTG within the public sector is that they wish to maintain its NEB functions, using BTG as an arm's-length device for the Government to take a 25 per cent equity stake in new companies. The Welsh and Scottish Development Agencies do this; DTI is able to say to the English "regions" that they are not forgotten. This presentational aspect apart, there is no sound case for this role. Industry is suspicious of public sector venture capital; why would a budding venture capitalist of real talent forsake the chance of becoming reasonably wealthy in exchange for a salaried post with BTG?

but see 5(b) in Dr Nicholson's note.

MCS

The decision on this important matter should not be hurried because of the Chairmanship succession problem. If we want BTG to be floated off in a year or so, the new Chairman needs to be recruited with that prospect clearly in mind.

NICHOLAS OWEN

CONFIDENTIAL

A

cc DTI
Mr Nicholson

CONFIDENTIAL

JU926

PRIME MINISTER

FUTURE OF BRITISH TECHNOLOGY GROUP

One of the points left outstanding before the Election was the future of the British Technology Group (BTG). This subject has now become more urgent because the Chairman, Sir Freddie Wood, whose early retirement has already been announced and whose health appears to be deteriorating, has asked to be replaced as soon as possible and certainly within the next month.

2You discussed the role of the BTG with Patrick Jenkin, and I do not want to re-tread the ground covered in his submissions of 28 March and 9 May. My own starting point is our Manifesto commitment "to accelerate the transfer of technology from the University Laboratory to the market place." I have also approached this by asking whether we would want to set up a BTG if one did not exist already, rather than by trying to find a new role for it just because it does exist.

3 There is certainly no need for the NEB role which involved expensive investments and which appears to have dominated the BTG's thinking in the past. They have a portfolio of some 60 companies inherited from the National Enterprise Board (NEB) which they ought to dispose of preferably within the next 12 months. At present they lack the expertise needed for this and

should recruit someone from the City with the right qualifications to concentrate entirely on divestment under clear instructions. The receipts from such disposals should go to the Treasury.

4 At the smaller end of the scale there is also a welcome growth of venture capital companies providing finance in an area in which the NEB was involved (and to some extent the NRDC). However, at present the venture capital companies naturally tend to 'cherry pick' the more favourable opportunities and, as we recognised in our Manifesto, we have to consider whether we ought to be getting more benefit out of our R&D spend.

5 We spend about £6 billion a year in this country on R&D. More than half of this sum is funded by Government (£3.3 billion in 1981/2) and this public funding is split roughly equally between civil and military work. About £2 billion of this is actually carried out in the public sector by about 30,000 scientists: £1.5 billion of it is civil R&D and the universities account for about £800 million of this.

6 At present the nation does not get the benefit from this research that it should, because so little of it gets commercially exploited. There is a real gap between research and industry and we need action to fill it. My Department already helps to promote links between industry and higher education e.g through the Teaching Company Scheme and I expect to initiate some new

proposals following the consultative process which Patrick announced in the Budget Debate. In addition, we now have the ACARD Report on R&D links between industry and universities, which confirms the need for further action and makes some useful proposals which are being examined.

7 The removal of the first refusal right from the BTG should in itself stimulate more direct forms of technology transfer involving the researcher, industry and, where necessary, some form of private venture capital support. In an ideal world such direct contacts would no doubt be so well developed that no intermediary body such as the BTG would be required and we could scrap it. Companies would know where the good research was carried out, and researchers would be on the look-out for aspects of their work that could be profitably exploited and would seek to give British companies the first chance wherever possible. There are indeed situations where these direct contacts exist and I want to take every opportunity I can to encourage the development of such links. But it would be unrealistic to imagine that these links are just waiting for the removal of the BTG's "monopoly" rights. In fact there is evidence to the contrary. The BTG have never had preferential access to UGC funded research, and yet are still used extensively by research workers offering their inventions to them voluntarily. We simply do not as yet have many universities or individual research workers who include the commercial exploitation of their work among their objectives; within industry our companies are patchy in terms of the interest they take in university research; and

although the financial market is improving as a result of the measures we have taken on tax, etc, the number and competence of venture capital companies is still relatively weak compared with the potential opportunities available. All this is confirmed by the recent ACARD Report.

8 There is therefore a gap - at least for the time being. I believe that if we are to get more benefit out of our R&D spend we will have to help to fill this gap. I do not want to be committed to any particular specific figure of staffing and I would want the new Chairman to start - in concept - from scratch and decide how many people are required. However, the BTG has the necessary skills and knowledge and it is reasonable to start from that base rather than scrap it and have to create another body. But they will have to modify their attitude and mode of operation. In short they will have to see themselves as supporters of others (in the Universities, industry and financial institutions) rather than as principals in their own right. The main tasks I see them performing are as follows:

- to make sure they are fully aware of commercially promising ideas from research projects, that firms likely to be interested in developing and licencing them know of them too and that researchers themselves think far more in terms of commercial development

- to take up the rights to inventions when offered to them voluntarily

difficult to adjudge

- to help fund further development work when ideas show promise but are insufficiently advanced to be taken up by industry for commercial exploitation (the NRDC has been almost the only source of finance in the pre-development gap between Research Council and industrial funding)

also difficult in practice

- to draw together the exploitation of parallel research projects being carried out in a number of different institutions (this should be an important service for venture capital companies which would not otherwise know about all the relevant research work)

- to provide a patent and licensing service to universities and others who would prefer to work in partnership with the BTG rather than hand over rights to them

But see Policing Unit's paper on MOD

- to work more closely with the MOD and defence establishments in encouraging the spin-off to civil application of defence R&D

- to help industrial companies to establish relationships with university researchers and so facilitate the take up of industrial property under licence, giving preference to exploitation by UK companies

- to help find sources of venture capital and to help with the establishment of start-up companies by the researcher.

9 I would expect the BTG to act in a business-like way in performing these tasks but I think it is important that their success should be judged by the amount and quality of technology transfer in which they are engaged and the increase of direct industry-university relationships which they facilitate rather than by any set financial return. I envisage monitoring their progress on this by reference to the number of cases offered to them, the speed with which they deal with them and the proportion that lead to successful licences or new companies. If they are really successful, they should work themselves out of a job as direct contacts take over or, conceivably, with private sector money being attracted into them. Equally if they do not yield a measurable increase or improvement in technology transfer then we should abolish them.

how is this to be measured?

MCS

will this suffice?

10 As far as their finance is concerned, they are unlikely to be a major burden on state funding, certainly in relation to the expenditure being incurred on the R&D itself. They can expect to receive an income from royalties etc and judging from their past experience I see no reason why they should not be self funding over say 5 years. The BTG have, after all, been in profit on the NRDC side of the business for some years. - from one man's source.

?

11 Their expenditure would be primarily on administration and patenting costs. As I have said I would not want to commit myself on the size of staff required to carry out these tasks. but we must - strictly VG nos.

I would propose to appoint the new Chairman with the objectives above and ask him to report to me within three months as to the size of organisation required to meet these objectives. The level of operation that I envisage will be on a considerably smaller scale than at present. As far as providing finance for others may be concerned, this would be restricted to funding early development work and in exceptional cases helping with the financing of start-up companies set up by researchers to exploit their own ideas. In order to finance this expenditure I would want to leave open the possibility of the BTG continuing to receive public funds, since I regard this service as being in the national interest. Patrick Jenkin had agreed this with Leon Brittan. I do not believe any topping up funds would be large. The exact amounts would need to be considered when reviewing the BTG's annual Corporate Plan, which it would be the first duty of a new Chairman to formulate.

Chairmanship

12 If you can agree to my approach we would need a Chairman who would recognise the strength and experience available in the BTG but would turn it round to these new objectives and attitudes. Patrick Jenkin had suggested Dennis Stevenson, who is a young (37) existing Board Member and who impressed Patrick with his grasp of the new requirements when Patrick discussed his

proposals with the Board. I attach his CV and recommend him to you.

13 Finally, if you agree, I would make a statement by written PQ as in the attached draft. This mentions the desirability of early legislation and although the prospects do not look too promising, despite the length of the session, I am proposing to raise the question of legislation with the business managers, in case a convenient slot should arise.

14 I am copying this minute to Peter Rees, Keith Joseph, Willie Whitelaw as Chairman of QL and Sir Robert Armstrong.

C P

C P

4 July 1983

Department of Trade & Industry

Henry Dennistoun Stevenson CBE

Born 19 July 1945 in Edinburgh; married, 3 sons.

Educated at Edinburgh Academy, Trinity College and King's College, Cambridge, graduating with an MA in classics and economics.

Career

1964-70 Junior Partner in a Market Research Consultancy.

1970- Founded his own business comprising:

(a) 2 Market and Management Consultancy companies

(b) a wool company. - which one?

1971-80 Chairman of the Peterlee and Aycliffe New Town Development Corporations with major responsibility for building the new towns and attracting industry to them.

1971 Chairman of a government committee which produced a report "The Role of Young People and Voluntary Organisations in the Environment".

1972-76 Chairman of a government committee set up to produce an Advisory Code for Pop Festivals.

1973 Appointed Chairman of the National Association of Youth Clubs.

1977	Appointed Director of National Building Agency.
1977-78	Council Chairman and member of the Youth Involvement Committee of the Queen's Silver Jubilee Trusts.
1978	Member of the Council of the Royal Silver Jubilee Trusts.
1979-83	Adviser on Agricultural Marketing to the Minister of Agriculture.

Stevenson continues to run his own business, Specialist Research Unit, which is now effectively a holding company for a diversified range of activities ranging from market research consultancy to furniture manufacture and investment in high technology ventures.

CONFIDENTIAL

THE FUTURE OF THE BTG: DRAFT STATEMENT

The British Technology Group was formed in September 1981 by bringing together administratively the National Enterprise Board and the National Research Development Corporation and we have been reviewing its future.

2 We recognise that we are not obtaining as much benefit as we ought from the results of the excellent research work in the country and we have concluded that the BTG's primary task should be to help to promote the transfer of new technology, particularly from our Universities and Polytechnics, into industrial and commercial application. I believe that the combined technical, commercial and professional skills brought together through merging the NEB and NRDC equip the BTG for this important role. I see this function as helping researchers to identify and develop promising ideas and assisting their exploitation, in particular through patenting, licensing or occasionally participating in the establishment of a new company. We also want the BTG to encourage more direct links between industry and Universities by engaging in joint ventures and assisting the development of new ideas to the stage where private sector finance can take over. This will help to encourage the growth of venture capital companies, which are already beginning to become involved in technology transfer. The task of the BTG will be to act in support and partnership with research

workers, potential industrial partners and the venture capital and other sources of finance. The primary measure of its success will be the growth in technology transfer and the links between industry and research workers which it facilitates.

3 In this new situation it will no longer be appropriate for the BTG to retain its present rights of first refusal and the obligations which go with this. Together with my Rt Hon Friend the Secretary of State for Education and Science I shall be consulting those concerned about new arrangements to govern the exploitation of publicly funded research, particularly Research Council funded research in Universities.

4 Sir Frederick Wood has already announced his intention to retire early as Chairman of the BTG. I should like to pay tribute to the considerable efforts which he and his Board have made in carrying out the reorganisation of the BTG so far. In order to take the organisation forward on its new role I am appointing [ ] to serve as Chairman from 1 August, 1983.

5 The task of returning the inherited investments to private ownership will continue. The present Board has done well in disposing of some £140 million of its holdings since 1979. We will want to ensure that the activity is pressed ahead without distracting attention from the primary role and I am therefore asking the new Chairman to consider ways of handling this activity separately from the rest of the organisation's activities.

6 The BTG has also inherited the NEB's regional investment role in the English Assisted Areas. This task will continue for the time being and I shall make a decision about the BTG's continuing involvement in the light of our review of regional policy generally.

7 The BTG will be permitted to retain all income arising from its technology transfer activities and to determine the terms on which it provides its services and assistance. Its financial objective will be to become self-financing. It will require a proper capital structure on which to base its operations. I shall want to consider this with the new Chairman when the BTG has prepared a new Corporate Plan.

8 The BTG will also require a firm legal footing and I intend to introduce appropriate legislation as soon as the Parliamentary timetable will permit.

FILE

B/c: Mr Owen

Ind. Pol

10 DOWNING STREET

From the Private Secretary

12 May 1983

Future role of the British Technology Group (BTG)

The Prime Minister was grateful for your Secretary of State's minute of 9 May about the future role of the BTG.

The Prime Minister would prefer to postpone taking any decisions on this matter until after polling day.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

10 DOWNING STREET

(1)

Prime Minister

BTG

Please see new advice (attached) from CPRS and Nick Owen.

Agree X in John Sparrow's minute, subject to Y in Nick Owen's?

Or would you prefer to leave the whole thing over until after June 9th?

Please delay

MCS 11/5

MR SCHOLAR

11 May 1983

cc Mr Mount

FUTURE ROLE OF THE BTG

There seems to be general agreement that the BTG performs a valuable function not at present performed by others. But there is no reason why it need remain in the public sector, any longer than it takes to dispose of the NEB's assets. The BTG will have no obligations of a public service type, despite the impression given in Annex A to Mr Jenkin's letter, which mentions "providing a patent service". It already acts in a commercial way, seeking out and patenting only those inventions which offer it a commercial return.

I would therefore endorse Mr Sparrow's first recommendation to restructure the BTG financially: BTG should be given a "dowry", rather than be drip-fed and monitored by the DoI.

I would go further than his second recommendation. BTG's statutory guidelines should leave it free from all intervention on its methods of operation. It should not be burdened with obligations to regional policy nor be bound by DoI's priorities; BTG management has its own (probably superior) competence in technology transfer.

The prospective Chairmen should be told to work towards privatisation with a free hand in policy matters, but with no prospects of return trips to the Government for finance.

NICHOLAS OWEN

P.a.

NO

CONFIDENTIAL

Qa 06360

To: PRIME MINISTER

10 May 1983

From: JOHN SPARROW

Future Role of the BTG

With MCS? If not, will request.

1. Patrick Jenkin's minute of 9 May considerably clarifies his proposals. Much of what he suggests deserves support, but there are some aspects requiring comment.

2. The intention rightly is that BTG should operate commercially. If adequate competition emerges from the private sector, BTG's role will reduce; if not, its role will grow to the point at which it could be privatised. Therefore, it would be preferable to settle its capital structure once and for all and to make it self-supporting immediately rather than, as Patrick Jenkin proposes, for it to be given an annual PES tranche for a limited number of years (except for any funding of regional or non-commercial work carried out under contract).

3. With such a capital structure, it would be best if the Board of BTG could have the maximum possible independence. Its ability to operate commercially will crucially depend on the delegated powers it is given, but Patrick Jenkin's proposals give no details of the proposed statutory guidelines. You may wish to be satisfied that there will be no clawback of earnings to the Exchequer (which would adversely affect privatisation).

4. Annex A (the section headed 'Monopoly Rights') does not adequately deal with what follows the end of BTG's monopoly of publicly funded research. The implication is that the research institutions themselves will be responsible for exploitation (which we welcome) but in this context a return to the Exchequer is mentioned. A levy on an otherwise commercial deal could be a major disincentive. The return to the taxpayer should come from the increased economic activity generated by successful exploitation and not through a special tax on

the innovation process. The forthcoming ACARD report to you on university-industry links will offer some guidance on this topic. I suggest that the issue should be left open for further study.

5. In summary, I recommend acceptance of Patrick Jenkin's proposals, but -

(a) with an initial capital restructuring, no clawback on earnings and no subsequent PES tranche (apart from the funding of any contracted work for regional or other non-commercial purposes);

X (b) with statutory guidelines giving maximum commercial freedom to the Board and minimum scope for Department of Industry intervention;

(c) deferring any decision on what follows the removal of BTG's monopoly on publicly funded research.

6. I am sending a copy of this minute to Sir Robert Armstrong.

CB.

IND PR : BTG
PA2

CONFIDENTIAL

JH 670

PRIME MINISTER

Prime Minister

I will resubmit this to you with Dr Nicholson's views.

Thank you
MT

MCS 9/5

FUTURE ROLE OF THE BTG

I have now had time to consider the points you made to me about the future role of the BTG in our discussion on 21 April.

2 I attach the note you asked for outlining the proposed role and financial regime which I have agreed with Treasury and other Ministerial colleagues.

Need for BTG

3 You will remember that in my minute of 28 March I put forward my plans for the future of the BTG:

- to separate out those old investments of the past which still remained in the NEB's portfolio and have them managed and disposed of as a separate exercise;

- with the increase in the availability of venture capital to shift the emphasis of the mainstream BTG activities away from investment towards the earlier stages of technology transfer;

- to encourage competition throughout the technology

transfer process by ending the BTG's right of first refusal;

- to provide for the possibility of the BTG performing other tasks. I mentioned a regional role in the English Assisted Areas but this would clearly depend on the outcome of MISC 14.

4 You welcomed the encouragement of greater competition in the process of technology transfer and wondered whether the growth of venture capital at one end of the spectrum and the freedom for research workers to exploit their own inventions at the other did not dispense with the need for a BTG altogether.

5 Though I started, like you, as a profound sceptic I have been forced to the conclusion that a body is still needed in the public sector to deal with the difficult and staff intensive task of identifying ideas, occasionally providing pre-development finance and of patenting and licensing those which have promise of commercial success. There are many recent reports to vouch for the difficulty in achieving technology transfer, including from ACARD, NEDC and Parliamentary Committees (the most recent from the House of Lords Science and Technology Committee which we have yet to answer). Venture capital is not the problem; it is the hard slog at the earlier stage which is the main deficiency. A timescale of 5 to 10 years from research to market place is normal, rather than exceptional, as the cases described in the attached note illustrate. Since we spend about £3.5 billion of

taxpayers' money on R&D, I believe that a further modest investment to help transfer the benefits of this research to industry is worthwhile. Indeed the BTG has been able to finance an investment of about £15 million a year out of its revenue. Were is not for the imminent decline of this revenue (as the Cephalosporin patents run out) privatisation might have been possible now.

6 Over the next 5 or so years, however, I envisage the role of the BTG progressively reducing as the venture capital market takes an earlier interest in potential projects involving new technology. The market will of course tend to pick out the most promising projects; it would be quite wrong for us to discourage this. As we get the fiscal environment right (and in my view we still need to do more), the venture capital firms will increasingly fill the gap. But we are not there yet. We want to encourage closer links between industrial firms and academic research work. This is happening already - the BTG has no rights, for example, over UGC funded research - but it is still the exception to find research workers willing or able to tackle the business of exploitation themselves. This is why the Research Councils and Universities see a continuing need for the BTG. I am sure this need will decline as direct contacts improve and I mentioned some of the ideas I had for strengthening these links in my minute of 28 March. A similar situation exists in the Ministry of Defence Research Establishments and indeed even in my own Department's Research Establishments, though there have been improvements in both.

7 The increase in competition should therefore help create alternatives to the BTG. It should also transform the motivation of the BTG itself. BTG staff will have to prove themselves. If they succeed, we can privatise a large part of their activities. If they do not it will be because the private sector will be filling the gap and we can safely wind up the BTG.

8 When we met to discuss this, you asked in particular whether there was not an overlap between what I was proposing for the BTG and the activities of institutions such as FFI and ICFC. It so happens that Mr Tindale, the Deputy Chairman of FFI, is a Board member of BTG - and has been a Board member of NRDC for 9 years. He is a strong supporter of the BTG's patenting and licensing work. You may be interested to see his views in a recent letter which I attach.

Size of the Organisation

9 If you agree with my view that there is a continuing need for an organisation whose role can either be expected to contract over the years or if not should be a candidate for privatisation, it is right to consider what size of staff is appropriate for the tasks involved.

10 Before the NEB and the NRDC were merged, they had a combined staff of 325; the NEB had 90 staff and the NRDC 235. Since the merger there has been a 25% cut in staff, with recent savings when the organisation moved into a single building. Of the 240 staff presently employed, about 150 are engaged on technology

transfer activities. Of the remainder some 30 are managing the existing investments which I have proposed should be handled separately; 25 are working in the regions; 7 on small firms schemes and the remainder on new investments - a role which I see declining almost to extinction - and administration and other central services. Given that the BTG receives over 2,000 new inventions each year from a variety of sources and has more than 900 projects on hand I do not think that the present figure of about 150 is so unreasonable as to be condemned out of hand. Some work might be contracted out to reduce this requirement.

How many are patented?

11 My approach would be to make it clear to a new Chairman that his first task would be to take stock of the organisation and to decide what size staff is appropriate for the tasks that are now to be given to it. The financial arrangements which I have agreed with the Treasury will enable me to monitor the level of administration expenses and will contain an in-built incentive for the organisation to keep their costs to a minimum.

12 If you can agree with the kind of role I have outlined for the BTG I would propose to make a very early announcement of our intentions, which will help to dispel the uncertainty which has now been hanging over the BTG for some months. During my recent regional visits, I have been pressed by both businessmen and academics with the need to clarify the BTG's future. It would be

highly desirable to announce the name of the new Chairman at the same time. In my earlier submission I suggested Dr Jack Birks, who I know would be very supportive of the approach I have suggested. Another, much younger, candidate is one of the present BTG Board members - Dennis Stevenson - who impressed me very strongly when I sounded out the Board on my future intentions. He is very lively, keen and knowledgeable in the technology transfer field, and would I believe, be a very effective manager - though I have not yet approached him about the Chairmanship. If you are attracted by the idea I will make the necessary enquiries as a matter of urgency.

13 I am sending a copy of this minute to Sir Robert Armstrong.

Caroline Varley

(approved by the Secretary of State and signed in his absence)

P J

9 May 1983

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

JF3434

ANNEX A

BTG

Role: The role of the BTG will be:-

1 To maintain contact with research in Universities and other publicly funded bodies in order to be aware of work which offers commercially exploitable opportunities.

2 To provide a patent service for publicly funded research (and other inventors) which ensures that appropriate protection is provided so as to enable British industry to take maximum advantage of the research.

3 In cases where the appropriate research results are either not immediately patentable or otherwise require further development before they can be exploited by British industry, to provide funding for such development work.

4 To maintain contact with industrial companies who may be interested in exploiting the results of particular pieces of research through taking a license or entering into some form of joint venture arrangement to exploit the work.

5 Similarly, to maintain contact with other sources of venture capital with a view to interesting them in financing technology transfer where necessary on a joint basis.

6 To undertake such other activities as the Government may from time to time ask them to carry out; eg regional role, small firms role, awards to academic establishments sharing outstanding technology transfer activities.

In none of these cases would the BTG have an exclusive right to operate. The range of activities would depend on the quality of the service provided by the BTG and the willingness of research workers, industrialists and venture capitalists to use the BTG or enter into joint arrangements with it.

Financial Regime

The BTG will be required to draw up a five year plan of its technology transfer activities, the funding it will require and the income it expects to earn from its licenses and its investments. Once the plan is agreed with the Treasury, the net funding requirement will be provided within PES in annual tranches (rather than provided as an initial lump sum) but the BTG will have to aim to become self supporting over a specified period.

The BTG will update and agree the five year plan annually with the Department of Industry to ensure that the priorities of the BTG are maintained in line with those the Government determines for the Department. Beyond this the judgements on individual cases will be entirely the responsibility of the Board of the BTG, subject only to such limits to the delegated powers as are laid down in the statutory guidelines, but even in cases requiring the consent of the Secretary of State the Department will not 'second guess' the judgement of the Board or the arrangements entered into with private sector partners.

The agreed PES annual tranches will only be varied in so far as the Government invites the BTG to undertake additional activities, under (6) above, for which additional funds may be required. These will be funded, and accounted for, separately from the technology transfer activities.

Monopoly Rights

The BTG will have no monopoly rights over publicly funded research. In order to define the nature of the services it will offer and the terms on which it will do so, the BTG will enter into general agreements with Research Councils, and other funding agencies eg Ministry of Defence. Arrangements will also need to be made to ensure a return to the Exchequer when publicly funded research is exploited directly with industry or private sector source of venture capital and also to ensure that British firms have the first chance to take up new ideas which have been developed at the taxpayers' expense.

Regional and other non-commercial activities

These tasks will only be undertaken by the BTG at the express invitation of the Government and only if the Board of the BTG is satisfied that they can be carried out satisfactorily alongside the technology transfer role.

JF3433

ANNEX B

Nuclear Magnetic Resonance

This is a technique for imaging biological tissue, including the inside of a human body. A number of Universities in this country took up research which had been started in the US (particularly Nottingham, Aberdeen and Oxford) and the NRDC first became involved in 1973. Its first patent application was in April 1974. Since then further extensive work has been undertaken in a number of Universities and the NRDC has been able to draw the various threads together and currently holds a large portfolio of patents covering some thirteen separate inventions. The BTG has licensed a number of companies to develop commercial NMR imaging systems using one or more of these patented inventions. This includes both large companies (GEC for example) and small ones (one of the researchers at Aberdeen has set up his own company with venture capital support). Commercial equipment is only beginning to become available now almost 10 years after the NRDC first became involved.

Perbury - Continuously Variable Transmission System

This is a private invention made by two individuals in this country in the 1950s who proved that this new form of transmission system would work in a car. The inventors tried unsuccessfully to interest vehicle manufacturers over a long period and eventually turned to the NRDC who recognised the fuel saving characteristics of the invention and in the mid-1960s agreed to fund further research. With the further patents and know-how which this generated, the NRDC tried to interest companies but without success until after the oil price increase when BL began to show interest. BL now have a licence to the technology and have incorporated the transmission system in a Leyland Bus. They have no plans to incorporate the system in their other vehicles but both Ford UK and Volvo have been

discussing with the BTG the prospect of licensing the technology for application in cars. A further licence is likely to be granted shortly to Ford UK although BL have been trying to block the arrangement. Meanwhile another application of the technology has been developed - that of a constant speed alternator drive in the Harrier. This has already generated an income to the BTG of £300,000.

Alkali Resistant Glass-Fibre

In 1967 a research worker at the Department of Environment's Building Research Establishment demonstrated that a glass composition could be produced that was resistant to alkali attack and capable of being made in the form of a fibre. This had considerable application to the problem of reinforcing cement (which is slightly alkaline) with glass fibre. BRE offered the invention to NRDC who were convinced that it was the sort of development in which Pilkingtons should be interested. The company declined for more than 2 years to take any interest on the basis that no significant glass innovation could take place outside the industry. There was interest in the invention from overseas companies but NRDC persisted with Pilkingtons and they were eventually persuaded. Pilkingtons then committed considerable resources to the development and the NRDC also invested £¾ million in a joint venture development programme which resulted in the launch of Cem-Fil, a process which Pilkingtons have also now licensed in Japan and the USA.

Unimation

NRDC established contacts with this US company in the early 1960s when it was trying to help with a licensing arrangement between it and a British company. This project was unsuccessful but the contact between Unimation and NRDC was maintained and was subsequently instrumental in getting Unimation to convert their

sales office in this country into a full scale manufacturing operation for PUMA robot series. This was with joint-venture support from the NRDC. This support has continued and a further expansion of the Telford plant has recently taken place again with financial support from the BTG (NRDC).

Transpotech

Earlier this year the BTG (NRDC) set up a company to market the skills and expertise of the Transport and Road Research Laboratory. As part of the Department of Transport, TRRL had been unable to take advantage of opportunities which it foresaw for itself of undertaking consultancy and project management contracts in overseas countries. Not being a candidate for privatisation because of the nature and range of its mainstream activities, the TRRL needed a mechanism to exploit the commercial potential of its skills, hence the establishment of Transpotech. The company is now about to sign its first contract in which TRRL staff in conjunction with a number of UK companies including Plessey and Logica will undertake a feasibility study for a traffic control project in Hong Kong.

Finance for Industry plc
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Deputy Chairman

5th May 1983

J. Gill, Esq.,
Deputy Secretary,
Department of Industry,
Ashdown House,
123 Victoria Street,
London SW1E 6RB

Dear Mr. Gill,

NRDC

Transfer of technology from the public sector to private enterprise

For most of the post-war period NRDC has been the leading instrument of this transfer. The object is to ensure that, where practicable, the effort supported by Government funds in universities and research establishments benefits the UK economy and that NRDC should achieve a profit on its operation in so doing.

The operation involves:-

1. The obtaining of a flow of development from the relevant sources.

2. A preliminary assessment as to the possibility of commercial exploitatiion of the idea.

3. The protection of the intellectual property.

4. The development, in association with private enterprise in a variety of relationships, of the idea through its various stages to commercial exploitation.

5. The obtaining of a return (by royalty or investment) from the above work to cover the costs of the operation - including the costs of failures.

The whole process is time consuming and difficult and inevitably brings the strong possibility of conflict with partners at every stage, but particularly with the inventor who does not understand the difficulty of exploitation of his ideas and does not understand the need to cover the inevitable failures of other products if his own is successful.

There can be no doubt that over the whole period and scope of its operation in this field, NRDC has achieved a measure of success in obtaining exploitation while making a profit in this particular activity; covering its costs with a substantial surplus. The question must now be addressed as to whether the private sector, with its new-found interest in the subject, would in future be a better medium and could replace in the near future NRDC activity.

The private sector's activity is developing in three directions.

Firstly, by direct contact between companies and research departments; secondly, by the increase in the number and efficiency of specialist venture capital firms and, thirdly, by specialist licence brokers.

The first - direct relationship with companies - has been present throughout the period and is increasing. It is first class when it exists and should be encouraged. It leads to a cross-fertilisation between companies and research departments which has good advantages both ways and also to commissioned work which serves to reduce directly the cost of the research department which falls on the state. It also controls in some respects the direction of the effort of the department away from uncommercial ideas. NRDC has played quite a part in encouraging these arrangements, which in a number of instances, have developed from NRDC joint ventures.

The second - development capital organisations - are proliferating at a fast rate (particularly in the past two or three years) possibly under the stimulus of the US explosion.

My own organisation is still probably the biggest single operator in this field in the UK and is satisfied with the returns which it is now developing. It is not, therefore, surprising that I believe that this upsurge by the private sector is highly desirable and, while it ought not to require subsidisation should not be fettered. It is for this reason that I welcome the removal of any NRDC "monopoly" in the exploitation of the product of the research departments, although it must be recognised that some measures must be taken to ensure that the public who have paid for the research department receive some reward when the product is exploited.

The third - specialist licence brokers - is again a long-standing activity. It operates mainly in the area of already developed products or processes, often across national frontiers and while there has been some growth in recent years, it cannot be said to have achieved any great break-through so far.

Broadly, the important question is whether the venture capital organisations could now fill the role so far undertaken by NRDC. My own view is that at the present time they could not. Essentially because of the costs involved - both of money and more particularly of the specialist staff - these organisations must look for operations which can be carried through quickly and which offer substantial rewards in the short term without heavy investment in capital plant. Thus, both here and in the USA, the venture capital organisations have concentrated, for example, in development of and around the chip. There can also be a concentration in projects which, although long term, have a glamour which make the promoters believe that they will be able to introduce in a comparatively short period investors who will take up some portion of their interest at a profit on the totality of their investment at a very early stage in a long development process - perhaps the genetic engineering field is a good example.

There remains, however, a large area without this glamour where exploitation should still be practical on a basis which should show a margin over the cost of bringing it to commercial exploitation but in which, because the time scale is long, capital involved in development - whether for pilot and production plant or marketing - is high and/or there is likely to be a relatively limited market, a venture capital organisation with its return on capital requirement would be unlikely to be interested.

It is in this sector that in my view there is a continuing need for an NRDC to operate. NRDC still has the widest spread of university and research association liaison contacts - which do not concentrate in the "fashionable" universities and departments. The present operators in the private sector will not have the desire or the resources to match this for some years to come and no single group is likely to do so even in the long term. NRDC has what is arguably the best patent department in the United Kingdom (possibly ICI would dispute this claim, but I think no other) and the protection of what is after all public intellectual property is still a very necessary function. NRDC has wide-spread contacts with UK firms who are taking on the hard work of bringing ideas to commercial fulfilment over a wide spread of industry, including some of the basic industries which badly need a technical boost. Finally it has operated in the area for over 30 years on a basis which has involved no cost to the public.

In my view the case for the maintenance of NRDC operation in this function in the immediate future is clear. There are a number of interesting innovations now being taken by BTG in promoting technology transfer which we have every reason to believe will contribute to the problem. I have not, however, dealt with these aspects as we can at the present time only surmise about the outcome.

If NRDC is to continue it must of course be on the basis that it is free to enter exploitation arrangements which permit it to benefit from commercial success. In the normal way there will be licence royalties, but minority equity partnership should not be excluded. Having said this, I would not think it appropriate for NRDC to try to emulate the venture capital funds in taking controlling interests. I believe that their experience has shown that a satisfactory result can be achieved without these.

Yours sincerely,

L.V.D. Tindale/BJ.

Dictated by Mr. L. V. D. Tindale
and signed in his absence.

CONFIDENTIAL

HK

bc Robin Nicholson (CPRS)
Nicholas Owen.

file

10 DOWNING STREET

From the Private Secretary

21 April 1983

Dear Jonathan,

British Technology Group

The Prime Minister had a discussion with your Secretary of State this afternoon about the proposals in his minute of 28 March about the future role of the British Technology Group (BTG).

The Prime Minister said that she welcomed your Secretary of State's proposal to end BTG's monopoly, whereby it had the right of first refusal to exploit the results of Research Council research, including that done by universities. But she had a number of doubts about your Secretary of State's proposals. She believed that the BTG, as he envisaged it, would become a large bureaucracy; and that it was unnecessary to maintain a public sector body of this kind, with the power to set up companies and take shareholdings. If the aim was to provide an organisation which would turn pure research into a commercially exploitable form she doubted that any single person or institution could oversee this; and she could see no reason for creating a further institution, given the existence already of FFI and ICFC.

Your Secretary of State said that he had started from a position of similar scepticism. But he had been persuaded that, in the commercial climate in Britain at present, some such organisation was necessary. In the United States there was sufficient venture capital to permit the commercial exploitation of pure research in the private sector without the involvement of public funding. But experience had shown that sufficient venture capital was not available in the United Kingdom, and that with low industrial profits and high taxation it was unlikely to become available in the near future on an adequate scale. Without some Government involvement vital research would be exploited abroad, or would not be exploited at all. The BTG, stripped of its monopoly power, should take a much more active position than it had in the past. It would need to seek out the research work, and persuade those involved to see the commercial possibilities of their work. He did not envisage a larger BTG; if anything it would be smaller than at present. On the relationship between BTG, FFI and ICFC, all these three organisations were complementary to one another. What was needed was an organisation in England which would perform some of the functions in which the Welsh and Scottish Development Agencies had already had some success. He would like to see the remuneration of those in the BTG linked to BTG's success, and so to arrange matters that the BTG was eventually privatised.

CONFIDENTIAL

/ The Prime Minister

BHC

The Prime Minister said that she was not impressed by these arguments. She did not believe that an analogue, on the lines suggested, to the Welsh and Scottish Development Agencies was necessary in England. She would wish to be much clearer about the terms of reference of the BTG, about how it would ultimately be privatised, the relationship with FFI and ICFC, and how the Government would set about choosing people with the qualifications and ability necessary to carry out the task your Secretary of State envisaged for BTG. She added that, if there was a role for a BTG, she envisaged it being carried out by a handful of people, and not by a large bureaucracy. The Prime Minister handed your Secretary of State a list of points about which it had been suggested to her further clarity was required. I attach a copy of this for your convenience.

Your Secretary of State said that he wished to consider the matter further, and expected to put a further note to the Prime Minister on the issues which had been raised.

I am sending a copy of this letter to Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

10 DOWNING STREET

Prime Minister

There is a brief from John Sparrow / Robin Nicholson at flag A, which is highly critical of Patrick Jenkin's proposals.

MCS 20/4

A

Covering CONFIDENTIAL

Qa 06335

To: PRIME MINISTER

20 April 1983

From: JOHN SPARROW

British Technology Group

1. For your meeting with Patrick Jenkin tomorrow, you may find the attached list of points helpful. They are distilled from my minute of 30 March to you on this subject, and take the form of four questions of principle which you might like to ask, with possible supplementary questions in each case.

2. A copy of this goes to Sir Robert Armstrong.

JS.

Att

British Technology Group

1. The Government must be clear what its objectives for the BTG are. An evident aim is the transfer of technology from the laboratory to the market place but BTG will not be the only organisation attempting this. Nor will it have the resources to plug any national gap in the financing of innovation.

2. What role should a state-owned agency play?

Will it be a permanent instrument of Government policy? Or will it, by operating commercially, demonstrate successful backing of advanced technology for the private sector to duplicate? If the latter, will it eventually pass out of state ownership?

3. What financial regime is required?

Will BTG have commercial freedom and responsibility and be able to respond to what private sector partners require, eg joining (as a minority partner) equity packages? Once the initial capital structure is determined, should BTG operate independently of further Government support? Or should it have a regular PESC subsidy? Is the latter consistent with commercial credibility?

4. Should BTG have a continued monopoly on some publicly funded research?

Again, is this consistent with commercial credibility? If no monopoly, who should be responsible for exploiting that research?

5. Should BTG have regional or non-commercial tasks?

Would a regional role outside advanced technology be compatible with its main objectives? Can the issue be settled before completion of the MISC 14 regional review? Should BTG be reimbursed on a contract basis for any non-commercial role?

big bureaucracy

monopoly must go

PJ govt should go in for corp finance

seeding projects yes not corp finance

govt Board flawed

pw achiv — take initiative

remarkably monopoly will change nature

PM No role for them

PJ Enhanced role role originate role

do it in a wide way

project funding in return for royalty

PM Why do we need it

venture capital pos not negative sec

start-ups not negat

profits low industrial

taxation has killed venture capital

valuable things either must happen — or will go overseas

NW bigger — prob smaller

—

If cos cannot be realised — wind it up

PM Don't want BTG to have shareholding of cos

& set up cos

PJ Can't leave it to market as VS

∴ venture capital doesn't exist here in that way

Jack Mitchell with DoI money

won't work here as in US

Scientists in UK beginning to exploit — but still believe in pure research

BTG to go round opportunities

Closing — prefer honour to commerce

10 DOWNING STREET

(1)

Prime Minister

Agree to a meeting with Patrick Jenkin, to discuss the functions of the BTG?

MCS 14/4

Yes pls

Now Arranged
MCS 15/4

Told Dr Nicholson (for brief)

Prime Minister
To be aware of Sir Harold's article.
WM 12/4

Mr. WM 13/4

SIR HAROLD WILSON'S ARTICLE ON THE BTG

BACKGROUND

Financial Weekly of 25 March contained an article by Sir Harold Wilson about the British Technology Group (BTG). Most of the article is historical, and describes his own involvement in the setting up of both the NRDC and NEB. The essence of the article is in the last two paragraphs, which express the hope that both the BTG's constituent parts will be retained and developed.

The Secretary of State for Industry's proposals are currently with the Prime Minister, and would involve a greater emphasis in future on the NRDC role of developing and exploiting technology and inventions, though with a greater degree of entrepreneurial spirit and initiative-seeking than has been shown in the past.

SPEAKING NOTE

The Rt Hon Member's article was an interesting account of his part in the formation of the NRDC and NEB, though contained little evidence to suggest that his progeny have been terribly successful in their present forms. The Government is currently considering proposals which will provide a fresh impetus in the whole area of innovation and technology transfer, and my Rt Hon Friend the Secretary of State for Industry will be making a statement soon.

12.4.83

MR. RICKETT

I doubt whether Sir Harold would send us the attached article purely for the files. He might get up at Parliamentary Questions and ask the Prime Minister "whether she has read the article in Financial Weekly which has been brought to her attention". Could you please get a speaking note about the Government's plans for the future of the British Technology Group and show it to the Prime Minister with the article (which she need not read in full) as briefing for Parliamentary Questions.

FERB

11 April, 1983

FIV= Sc

10 DOWNING STREET

From the Principal Private Secretary

11 April, 1983

I escaped to Cornwall for Easter and consequently did not receive your letter of 30 March until my return today. Thank you very much for sending us your article in Financial Weekly. It will not surprise you to learn that it had been noticed already! I have read it with great interest, especially since I have a personal recollection of the latter part of some of the history in it.

F. E. R. BUTLER

The Rt. Hon. Sir Harold Wilson, K.G., O.B.E., F.R.S., M.P.

2 pts

2

Prime Minister

Support for Mr Jenkin.

MCS 15/4

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/1

11th April 1983

Prime Minister

I have read with interest Patrick Jenkin's minute to you of 28th March about the future of the British Technology Group.

I would just like to add that I support the approach Patrick has taken. I am currently looking closely at ways of improving the spin-off of defence technology into the civil sector, in consultation with Patrick, and while I have not yet come to any final decisions I would hope that a re-organised BTG would be able to play as a medium for transmitting technology and transforming it into marketable ideas.

I am equally anxious for private entrepreneurial organisations to have the opportunity to play a role here as well. For this reason I also welcome Patrick's proposal to remove BTG's right of "first refusal" on the exploitation of certain types of Research Council-originated technology. My officials are in touch with his about the implications of this and other changes for Defence. But overall we are firmly behind his proposals and look forward to their incorporation in the context of a suitable Bill in due course.

I am sending a copy of this letter to the Home Secretary, the Chancellor, the Secretaries of State for Education and Science, and Employment, John Sparrow and Sir Robert Armstrong.

Michael Heseltine

The Rt Hon Margaret Thatcher MP

Ind Pol.
BTG, pt 2

SC 1/a

Prime Minister

MCS 15/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

8 April 1983

Dear Patrick.

MT

BRITISH TECHNOLOGY GROUP

I have seen a copy of your minute of March 28 to the Prime Minister.

These issues have been discussed at length between us and I am content with your proposals. I especially welcome the severe curtailment of the NEB's corporate investment role which, as you say, during the previous Government's term led to a series of disastrous investments. I assume that you still plan the same ground rules on equity investments as you proposed in your letter of February 2 to me: namely BTG to seek consent in every case; approval only where other forms of finance are inappropriate; and that it should in no case exceed 25%.

There are just two other points to take up. First, you propose ending the BTG's right of first refusal to exploit the results of Research Council research. I am content with this but I would not want it to lead to Research Councils turning into mini-BTGs and providing finance for innovation. This should come from industry itself.

Second, I accept your point that the BTG should support advanced technology in English Assisted Areas but believe that the emphasis should be on advanced technology and not general regional support. Officials will be thinking further about this in the light of the proposals which you put to MISC 14 Committee last month.

I am copying to the recipients of your minute.

Yours ever
Leon

LEON BRITTAN

Ind Rel

BTG.

DSG

BF to Mes
of O/R

10 DOWNING STREET

From the Private Secretary

5 April 1983

Dear Jonathan,

BRITISH TECHNOLOGY GROUP

The Prime Minister has seen your Secretary of State's minute of 28 March. She has made the general comment that before considering the question of the replacement for the present Chairman, she wishes to give further thought to the future role of the Group. Michael Scholar will let you know, as soon as possible after his return to the Office next week, what arrangements the Prime Minister envisages for further consideration of this matter. It is possible that a meeting will be required.

I am sending copies of this letter to Tony Rawsthorne (Home Office), Margaret O'Mara (HM Treasury), Imogen Wilde (Department of Education and Science), Richard Mottram (Ministry of Defence), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS), and Richard Hatfield (Cabinet Office).

A. J. COLES

Jonathan Spencer, Esq.,
Department of Industry.

010

Ref. A083/1001

MR BUTLER

The Secretary of State for Industry sent the Prime Minister a minute on 28 March about the future role and chairmanship of the British Technology Group.

2. If the Prime Minister is content with the more active role in technology transfer now envisaged for the British Technology Group, I have no reason to suppose that Dr Birks would not be a suitable candidate for the chairmanship, though it seems slightly odd to combine the public sector BTG with the newly privatised National Maritime Institute.

3. The Prime Minister should be aware that Lord Weinstock suggested to me the other day that, if the main role of BTG was going to be to dispose of its existing holdings, Mr Ronald Grierson might well be a suitable candidate for the chairmanship.

RTA

ROBERT ARMSTRONG

31 March 1983

From Rt.Hon.Sir Harold Wilson KG OBE FRS MP

HOUSE OF COMMONS
LONDON SWIA OAA

30th March 1983.

Dear Robin,

When I met the Prime Minister at the Kaunda reception last week, I mentioned to her that I had written an article for Financial Weekly, on the Government's decision concerning the British Technology Group.

The article contained the history of the N.R.D.C., which I set up in my Board of Trade days and also dealt with the N.E.B. which was set up under the later Labour Government.

You may like to have this for the files.

Yours,
Harold

Mr.Robin Butler,
Private Secretary to the
Prime Minister.

CONFIDENTIAL

Qa 06313

To: PRIME MINISTER

30 March 1983

From: JOHN SPARROW

British Technology Group

1. Patrick Jenkin sent me a copy of his note of 28 March to you on the future of the British Technology Group. I think that this calls for an initial response from you before you have a Ministerial meeting.

2. I attach a note on the major issues and the areas which need further clarification. I also attach a draft of a letter which Michael Scholar might send to the Department of Industry.

3. A copy of this goes to Sir Robert Armstrong.

JS.

Att

CONFIDENTIAL

BRITISH TECHNOLOGY GROUP

1. Before the future role of the BTG can be settled, the Government must be clear what its objectives are for innovation policy, and what part, if any, the BTG should play to further them. An evident primary aim is the transfer of technology from the laboratory to the market-place but BTG will not be the only organisation attempting this. Is it to have a preferred position? Is it to operate commercially, earning a rate of return that would be acceptable to the private sector, or is it to operate to other criteria?

2. It is Government policy to encourage the private sector to be as active as possible in innovation so that in due course there would be no need for a state-owned agency.

3. Why have a state-owned agency?

Despite the recent growth in project finance and venture capital funds, the financial institutions are not yet very experienced in assessing advanced technology and are not investing in situations where the pay-off might be large but slow in coming through (what is called "patient" money).

4. What role would a state-owned agency play?

It would not have the resources to plug the national financing gap. Therefore it must, by the success of its individual projects and its overall performance, demonstrate the successful backing of advanced technology for others to duplicate.

5. What strengths does BTG have for the role?

It has a good knowledge of the nation's research base in universities and Government research laboratories; experienced licensing staff; experience of financing mechanisms; and (subject to decision on its financial regime) the ability to deploy "patient" money.

6. How should BTG carry out its role?

It must act in a catalytic fashion, bringing in private capital; be free to respond to what private sector partners require, e.g. joining an equity package (but as a minority partner); and must operate with commercial flair and develop a reputation that commands respect in the commercial world. It should lose its present privileged position with respect to publicly funded research.

7. What should be BTG's financial regime?

Once the initial capital structure is determined, BTG should operate independently of further Government support and have commercial freedom and responsibility.

8. Should BTG have non-commercial tasks?

Preferably not, but if Government wishes BTG to carry out any non-commercial role (such as an "English Development Agency") BTG should be reimbursed on a contract basis.

9. In the light of the above catechism, the Department of Industry's proposals need the following clarification:

(i) What is the Department of Industry's overall policy for innovation? Is BTG to be a permanent feature of that policy or is it, by operating commercially, to encourage others and itself to pass out of state ownership?

(ii) Is commercial operation by BTG consistent with it being regarded as an instrument of the Department of Industry?

(iii) After any capital restructuring, is it intended that BTG should operate independently of further Government support?

(iv) Even if its present right of first refusal on Research Council funded research is removed, will BTG still enjoy preferential access to other publicly funded research? Who will be responsible for exploiting research in universities funded by Research Councils?

(v) Can a BTG regional role be specified in advance of the MISC 14 regional review? Would a regional role, any other non-commercial role or a role outside advanced technology be compatible with its main objectives?

CPRS

30 March 1983

DRAFT LETTER from MICHAEL SCHOLAR to JONATHAN SPENCER,
Department of Industry

British Technology Group

The Prime Minister has seen your Secretary of State's note of 28 March on the future of the British Technology Group. Before discussing it in detail, it ~~would be~~ helpful to have a paper with answers to ~~which takes into~~ account the following questions:

The Prime Minister would find

(i) What is the Department of Industry's overall policy for innovation? Is BTG to be a permanent feature of that policy or is it, by operating commercially, to encourage others and itself to pass out of state ownership?

(ii) Is commercial operation by BTG consistent with it being regarded as an instrument of the Department of Industry?

(iii) After any capital restructuring, is it intended that BTG should operate independently of further Government support?

(iv) Even if its present right of first refusal on Research Council funded research is removed, will BTG still enjoy preferential access to other publicly funded research? Who will be responsible for exploiting research in universities funded by Research Councils?

(v) Can a BTG regional role be specified in advance of the MISC 14 regional review? Would a regional role, any other non-commercial role or a role outside advanced technology be compatible with its main objectives?

would be grateful if

The Prime Minister ~~also suggests that~~, in preparing the paper, your Department were to ~~you~~ consult the Treasury and the CPRS.

I am sending copies of this letter to Private Secretaries to those who received your Secretary of State's minute.

010

FINO

JH 308

I don't think we have got BTG right yet. Indeed I doubt whether any such group of people can really comprehend / foresee the potential of various research.

Only the person / group concerned can do that.

We will sort out BTG's future functions after we seek a chairman

Prime Minister

Please also see

1. Sir R Armstrong's note at flag A

2. Mr Sparrow's note at flag B

Agree I write as at flag C?

MCS 31/3

PRIME MINISTER

BRITISH TECHNOLOGY GROUP

(1) FUTURE ROLE

(2) CHAIRMANSHIP

Over the last few months I have been giving a good deal of thought, and have had many discussions, about the enormously important subject of securing a much better return for the nation from the large sums of money which are spent on scientific research and development in the universities, by the Research Councils, by the Ministry of Defence and by other publicly funded institutes. The sums involved are huge, with total net expenditure by central government on R&D amounting to £3.5 billion in 1982/83. Many of us here shared your anger about the recent BBC TV 'Horizon' programme which presented a biased, partial and unfair picture. Yet, there was, as we all know, sufficient substance in the general thrust of the programme to warrant further action to improve our performance.

2 I have a number of initiatives under consideration. DoI Ministers and officials have been reviewing with our opposite numbers in the MOD how to improve the civil spin-off from defence

R&D. Much useful work has been done which I am shortly to review with Michael Heseltine. He fully shares my concern that we do not secure nearly a good enough return, in terms of civil spin-off, from the substantial sums spent on defence research and he and I are very anxious to explore all the possible avenues for increasing this.

3 Another exercise which I have in train is an intensive round of consultations with universities and polytechnics to see how best we can improve liaison between these institutions and industry and to accelerate the transfer of technology from the academic laboratory to the factory and the market. When Geoffrey Howe spoke of "Science Parks" at the pre-Budget Cabinet, it was this initiative he had in mind - though I hasten to add that the arrangements which I contemplate may go very much wider and be a good deal more fruitful than most of the "Science Park" developments which have happened so far.

4 I shall report to you on both these matters when we are further advanced.

5 The rest of this minute concerns the British Technology Group. You will remember that at the beginning of 1981, Keith Joseph said he wanted to explore the possibility of merging the NEB and the NRDC and he proposed appointing Sir Freddie Wood to chair both bodies. In July 1981 Keith reported that he proposed to accept Sir Freddie's recommendation for an interim merger of

the two bodies. Since then the NEB and the NRDC have operated in a combined structure as the British Technology Group (BTG).

6 The NRDC is of course much the older of the two bodies. Founded shortly after the war, its main function has been to exploit discoveries from publicly funded research. It has done this in various ways - either by taking rights to intellectual property and licencing them to British firms, or by providing project finance to companies to share the risks and rewards of developing new ideas, or simply by promoting contacts between university scientists and commercial companies. For many years now they have had a right of first refusal to exploit the results of Research Council research including at universities. This "monopoly" has been much resented and in my view has led to all sorts of undesirable consequences. A generally lacklustre performance, an attitude which was largely reactive rather than proactive, a slow and somewhat bureaucratic organisation, a distinct lack of commercial knowhow and entrepreneurial flair - all these have characterised the NRDC's performance.

7 Turning to the NEB, soon after we took office Keith changed the role of the NEB substantially from that it had pursued under Labour and confined it primarily to the promotion of innovation. He also laid down that while the NEB should continue to provide corporate finance to start up companies (as opposed to the project finance provided by the NRDC) its shareholdings should be restricted almost always to minority stakes. However, the work

of the NEB has been overshadowed by the overhang of disastrous investments made by our predecessors which have occupied a wholly disproportionate amount of management time and attention.

8 For some months now therefore I have been reviewing both roles and have come to the conclusion that further changes are necessary. I believe that the merger makes sense but that the role of the merged body should shift the emphasis much more towards the technology transfer role hitherto carried on by the NRDC. It has made sense to combine the technical skills of the NRDC with the more commercial skills of the NEB but we need now to create a single, cohesive organisation with a single management and much more clearly defined objectives. The role I envisage for the BTG in future is, in a sense, "an enhanced NRDC role" - that is to say its primary aim should be to promote the transfer of technology from the laboratory to the market-place using a range of instruments, techniques and measures as appropriate. I propose that the "overhang" investments should be separated out and separate arrangements made for their sale or failing that their liquidation. (This could be done either by entrusting them to a separate management unit in the BTG, or alternatively by instructing a merchant bank or consortium of banks to undertake the job for the BTG. This is still being explored).

This sounds much too theoretical or bureaucratic for me. not

9 The first requirement is to end the "monopoly" right referred to above. Keith Joseph and I have been looking at this question and have agreed that the right of first refusal is no longer justified. Greater competition would encourage the BTG to show much greater initiative; it would help to improve its relations with the Research Councils and universities; and it would above all force the BTG to go out and seek opportunities rather than sit and wait for them to turn up on the doorstep. Conversely, the new freedom which this change will confer on the research councils and universities would encourage them to make direct contacts with industry - something that is already happening on an increasing scale. We shall need to make arrangements to keep exploitation in this country wherever possible.

and the team which has done the research

10 Next, I propose that the BTG's financial support should in future be concentrated almost exclusively upon projects and that corporate finance should become very much the rare exception. In carrying out this function, I want to see much closer co-ordination between the work of my Department in its sponsorship of activities carried on under the Science and Technology Act 1969 and the work of the BTG. I have used the phrase "a seamless robe" to describe this, implying that in carrying out their work, the BTG should have close regard to the overall aims and priorities which I have set for this aspect of my Department's work. Correspondingly, the Department should be encouraged to see the BTG as one of a number of instruments for promoting the exploitation of new technology. I propose that

the representatives of the BTG should be members of the appropriate research requirement boards and that there should be close liaison at all levels.

11 There are a number of other roles which I believe the BTG could usefully perform. They include helping to promote the civil exploitation of defence research; promoting contacts between universities and industry on a much wider scale; and (something which they do already) acting as an instrument of regional policy. They are the appropriate instrument to support new ventures in advanced technology in the Assisted Areas (in the same way that the SDA and the WDA do in Scotland and Wales respectively). All these roles require a good deal more detailed work before specific objectives can be drawn up and agreed with colleagues.

Have they any particular qualification for doing this?

why?

12 Finally, while I do not rule out the BTG taking the occasional equity stake, I see it as very much as the exception. I would expect them to seek to pursue their aims by other means wherever possible. If an equity stake becomes unavoidable, it should be a minority stake in every case.

13 I have now agreed with the Chief Secretary the financial regime within which the new BTG should operate and I would like to make a statement very soon announcing the new arrangements. I have to add that legislation is vital to give statutory backing

to all this. I have submitted proposals for a "Development of Inventions Bill" to QL, but so far it has not found its way into the programme. I am making representations to the Home Secretary.

Chairmanship of BTG

They aren't worked out yet

14 I believe the new arrangements require new management. Although the present Chairman, Sir Freddie Wood, fully endorses the role I have outlined we have agreed that it would be sensible to signal the change of role by the appointment of a new Chairman. Sir Freddie's appointment was due to expire next January; he has offered to retire early to make way for a new man. (Because this was leaked prematurely to the press, I have already made a press statement to this effect).

All his life has been with B.P. especially on oil exploration. I doubt whether he is sufficiently entrepreneurial. But I would like to meet a wise younger

15 The man I propose to appoint in his place, subject to your agreement, is Dr Jack Birks. He has the right technical background. He was a former Managing Director of BP, and since his retirement last year (he is now 63), he has been part-time Chairman of the newly privatised National Maritime Institute where he is doing a very good job. He has the right qualities of intellectual acumen, enthusiasm and hard-headed realism to tackle the business of technology transfer at the BTG on a part-time basis. He has indicated that if asked, he would be prepared to make available three days a week - one more than Sir Freddie Wood does at present. His appointment has been cleared with Sir

Robert Armstrong and Sir Douglas Wass. I would be grateful, therefore, to have your agreement to proceed with making this appointment which I should wish to announce when I make my statement on the future role of the BTG. Following his appointment I would expect there to be further senior management changes including the appointment of a new Chief Executive.

16 I have discussed the new role with the BTG (though of course not the management changes) with the Board whose names I list in the Annex. Although they reflected the unhappiness which recent press speculation has caused among the staff of the BTG, I was gratified by the enthusiasm which the Board members showed for the role I propose. I therefore do not expect any significant opposition. I am copying this minute to the Home Secretary as Chairman of QL, the Chancellor of the Exchequer, to the Secretaries of State for Education and Science, Defence and Employment, to John Sparrow and to Sir Robert Armstrong.

PJ

P J

28 March 1983

Department of Industry
Ashdown House
123 Victoria Street

Ind Pol

File

ds

10 DOWNING STREET

From the Private Secretary

10 July 1981

Relations Between the NEB and the NRDC

The Prime Minister has read your letter of 8 July on the above subject, and she has approved all of the proposals contained therein.

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment), John Rhodes (Department of Trade), David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office), Jeremy Colman (Civil Service Department) and David Wright (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

JH 408

CONFIDENTIAL
APPOINTMENTS IN CONFIDENCE

cc Mr Walters
Mr Duguid

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

8 July 1981

T P Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister
Content with proposed arrangements?
Yes

Dear Tim

RELATIONS BETWEEN THE NEB AND THE NRDC

In his minute to the Prime Minister of 19 January my Secretary of State outlined his plans for bringing together the work of the NEB and the NRDC under the common Chairmanship of Sir Frederick Wood. Sir Keith thought that the Prime Minister and colleagues would welcome a report on the progress which has been made since then.

2 On his appointment Sir Frederick undertook a study of the two organisations. He concluded that a full merger was feasible and represented the best way of removing a growing area of overlap in the operations of the two bodies. He also believed that their complementary skills, if combined, would be more successful in translating exploitable discoveries into commercial products. This view was endorsed unanimously by both Boards. Sir Frederick recognised that a full merger would require legislation. In the meantime, therefore, he has recommended an interim structure to integrate the operations of the two organisations under their existing statutes. My Secretary of State has accepted these recommendations. They will help foster a joint management approach by the NEB and the NRDC and will enable Ministers to take decisions on legislation in the light of experience of their operation.

3 The arrangements which Sir Frederick proposes for the interim structure cover much the same ground as my Secretary of State identified in his minute of 19 January. They involve identical Board membership, comprising all the existing non-Executive Board members of the two bodies together with the Chief Executive of the NEB and the Managing Director of the NRDC. This will represent a saving in Board time, which will be reflected in the level of remuneration for combined membership. My Secretary of State has already appointed Mr Larry Tindale and Sir George MacFarlane to both Boards. The other cross postings will be made over the next few weeks. Both organisations will also come under a single Chief Executive. Whilst appointment will not

have any formal standing as long as the two bodies are statutorily independent, my Secretary of State has accepted Sir Frederick's proposal that the two organisations should regard the present acting Chief Executive of the NEB, Mr Brian Willott, as Chief Executive of the combined operations and Dr Jim Cain, the present Managing Driector of the NRDC, as his Deputy. Mr Willott, who is 41 and has a doctorate in physics, is an Under Secretary of this Department who went on secondment to the NEB as its Secretary in May 1980. When the previous Chief EXecutive, Mr Ian Halliday, resigned last December the NEB Board appointed Mr Willott as acting Chief Executive. He has won the confidence of Sir John King and Sir Frederick Wood as being well fitted to run the organisation. My Secretary of State therefore proposes to appoint him as a member of both Boards for a period of two years; his formal position will be that of Chief Executive of the NEB. Dr Cain will also be appointed to both Boards. The NRDC's senior staff are understood to give these arrangements their full support. Finally, once the NRDC's new offices are finished next year, the two organisations will work under a single roof. Sir Frederick is satisfied that this and the other changes should lead to significant savings in overheads.

I know Willott - he is good.

TL

4 My Secretary of State hopes that the Prime Minister will approve of these new arrangements. There has been a great deal of comment about these plans for the NEB and the NRDC, all of which has been broadly favourable. To keep the House informed, my Secretary of State proposes to answer an arranged PQ before the Recess.

Agreed MT

5 I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, the Chancellor of the Duchy, the Chief Whip and to Sir Robert Armstrong and Sir Ian Bancroft.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

-8 JUL 1981

(IND. POL) DSG

File

cc: HMT
D/Emp
D/Trade
CWO
Co
C&D
+ Mr. Ingham
Mr. Duguid

10 DOWNING STREET

From the Private Secretary

21 January 1981

The Prime Minister has considered the Secretary of State for Industry's minute of 19 January about relations between the National Enterprise Board and the National Research Development Corporation, and related appointments matters.

She is content with the direction in which your Secretary of State intends to proceed, and she has therefore approved the proposal to invite Sir Frederick Wood to add the part-time Chairmanship of the NEB to his current role as part-time Chairman of the NRDC. She is also content with the flavour of the announcement of this appointment proposed by your Secretary of State.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes(Department of Employment), Stuart Hampson (Department of Trade), Murdo Maclean (Chief Whip's Office), David Wright (Cabinet Office) and Jeremy Colman (Civil Service Department).

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

Copy in Appointments.

/

PRIME MINISTER

Keith Joseph is looking at the possibilities of merging NEB and NRDC activities. As a first step, he would like Sir Frederick Wood to take on the part-time chairmanship of the NEB in addition to his similar role at NRDC.

He would like, in announcing this appointment, to make it clear that he expects him to look at ways of bringing together the work of the two organisations, and not to exclude the full merger option.

Content with this appointment, and with the direction in which Sir Keith intends it to lead?

Yes
agd.

MAP

20 January 1981

Copy in Appointments.

To Joan Potter to go with NEB C'man Papers

10 DOWNING STREET

Mike.

This seems the best solution. ~~But~~ NEB staff morale will not be improved because it will look like an NRDC take-over; but if there is to be a movement towards mergers - which seems sensible - a common chairman seems the right thing. JR.

PRIME MINISTER

CHAIRMANSHIP OF THE NATIONAL ENTERPRISE BOARD (NEB): RELATIONS BETWEEN THE NEB AND THE NATIONAL RESEARCH DEVELOPMENT CORPORATION (NRDC)

1 As you know I have been thinking for some time about the scope for bringing together the work of the NEB and the NRDC. The suggestion made by Sir Arthur Knight when you lunched with the NEB on 26 November (see your Private Secretary's letter of 27 November) reflected some comments previously made to him by Sir Peter Carey. You yourself have questioned the need for the NEB to duplicate part of the work of the NRDC and have urged that we should do nothing to perpetuate the NEB and NRDC as separate entities (your Private Secretary's letters of 22 December and 8 January).

2 The imminent departure of Sir John King, the acting Chairman of the NEB, and the coincidential resignation of a number of members of the NEB Board, provides us with an opportunity for action.

3 I consider the best course would be to invite Sir Frederick Wood, who is currently part-time Chairman of the NRDC, to be part-time Chairman of the NEB as well. I also favour cross postings between the NEB and NRDC Boards; for example, someone from the NEB Board might join the NRDC Board and Mr Laurence Tindale of the ICFC who serves with Sir Frederick on the NRDC Board

/might ...

Copy in Appointments.

might join the NEB Board to strengthen the links between the two organisations (and between them both and the ICFC, itself an important source of private sector venture capital).

4 If you agree to this I propose to link the announcement of Sir Frederick's appointment to a clear indication that I expect him to explore ways and means of bringing together the work of the two organisations. I would invite him to explore all the options including a full merger. But there are important differences between the two organisations to be taken into account; the NRDC has a well established role in relation to university and government inventions which is quite distinct from financing innovations in partnership with the private sector where its activities overlap with those of the NEB. Also the skills of the staffs of the two organisations are quite different; the NEB is staffed to carry out its entrepreneurial role and to create new companies, whilst the NRDC concentrates on the legal and technical aspects of patent licensing. I would expect Sir Frederick to consider such things as housing the two organisations in the same building and under a common Chief Executive. A formal merger would require legislation and would probably take two to three years to achieve.

5 We need not take decisions now on the future shape of the NRDC and NEB. The appointment of Sir Frederick to head both

/organisations ...

organisations is a useful first step. A common Chairman would avoid the natural tendency of the two bodies to go their separate ways. Sir Frederick also seems to have the right skills for the job. He has been Chairman of Croda International since 1960. He was a successful part-time Chairman of the National Bus Company from 1972 to 1978. Since becoming Chairman of the NRDC in 1979 he has progressively improved the NRDC's management. He is strengthening the NRDC's entrepreneurial activities, which are those most similar to the new activities we have given the NEB. He is 54.

6 Sir Frederick is willing to take on both jobs and, if he is appointed, would plan to devote about 2½ days a week in total to them both. I believe a part-time arrangement of this kind is best but the NEB would need a strong Chief Executive. Sir Ian Bancroft and Sir Douglass Wass have both been consulted and have no objection to the proposed appointment.

7 We need to act quickly. Sir John King leaves at the end of the month to take over as Chairman of British Airways and I shall need to make an announcement before then.

8 I am copying this minute to the Chancellor of the Exchequer,

/the ...

the Secretaries of State for Employment and Trade, to the Chief Whip and to Sir Robert Armstrong and Sir Ian Bancroft.

KJ

Department of Industry
Ashdown House
123 Victoria Street

K J
19 January 1981

MR SPRINGTHORPE

Ind Pol

cc PS/Chancellor
PS/FST
Mr Burns
Mr Middleton
Mr Unwin
Mr Corlett
Mr Turnbull
Mr Ward
Mr Folger
Miss Deyes

ADDITIONAL BRIEFING FOR PM's QUESTIONS

No.10 have asked for additional briefing on questions arising from the Financial Secretary's Zurich speech last night.

PSBR Overrun

[Referring to the Industry Act Forecast (IAF) figure of a £11½ bn PSBR in 1980/81 the Financial Secretary commented: "It may well prove that the final outturn is even greater than this." He then stressed the difficulties of forecasting the PSBR - which is "the difference between two rest magnitudes - each in the region of £100 bn." - Mr Healey used to make much the same point].

Since the IAF was published, the November borrowing requirement figures for central and local government have been published (these were no worse than expected) and the December CGBR figure (which was higher than expected). If further bad figures emerge then clearly PSBR will overrun IAF forecast. But it would be unwise to draw firm conclusions from one month's bad data. The outturn will depend on many factors, including heavy inflows expected in January and March and we must await indication of these receipts before giving a more precise assessment of the PSBR. [CONFIDENTIAL (not for use) - Treasury forecast, which No.10 has seen, is now £13¼ bn].

A tough Budget ?

The Financial Secretary forecast nothing of the sort. As to what will be in the Budget, I cannot anticipate my RHF the Chancellor's Budget judgement. I repeat what I told the House on Tuesday: no decisions have been taken.

FST admitted the real burden of taxation overall has increased since the Government took Office

And we have already made – as we promised – a major switch from taxes on persons to taxes on spend

True:- but economic circumstances have been exceptional. We are dedicated to the conquest of inflation, sound money and an end to the inexorable growth in the size of the public sector. Only these can provide the basis for a lasting reduction in the burden of taxation. I have never said that progress will be easy. But we are winning.

Monetary Targets

[Reference in FT leading article "The Financial Secretary spoke of the importance of other measures of the monetary stance - the exchange rate, narrow money, the inflation rate, and so on - but stuck to broad money as 'the most useful measure ! This is an odd conclusion to an explanation of why it is misleading."]

For the purpose of the MTFS, broad money (£M3) remains the relevant aggregate. But the particular problems of steering a suitable financial course in the short run is not based mechanistically on movements in £M3. The FST is quite right to draw attention to other indicators of financial stringency. Thus the November cuts in interest rates were possible because of (a) success on inflation; (b) high rates not particularly effective at this stage (because of high exchange rates, etc) in reducing demand for credit.

New Treasury forecasts

[David Blake article in the Times today].

There is always speculation about 'new' forecasts. The latest Government forecasts are those published on 24 November 1980 under the Industry Act. New Treasury forecasts will be published with the Budget.

Claw Back of this year's excess monetary growth?

F.S.T. made no categorical statement or prediction. Decisions on next year's target & monetary stance generally will be announced in Budget.

12.A

R I G ALLEN

EB

15 January 1981

Next year's PSBR

FST said " no reason to suppose PSBR cannot be brought back more or less onto MTFS track, by which I mean 3 per cent of GDP plus the automatic consequences for the public finances of GDP in 1981-82 being lower than was foreshadowed, for illustrative purposes, [in the MTFS]."

The Chancellor has indicated that he estimates that half of the excess over the Budget estimate of this year's PSBR (£8.5bn) can be attributed to the unexpected depth of the recession. It is clear from this that the level of GDP next year will be significantly lower than was envisaged at the time of the 1980 Budget, and that the PSBR is therefore likely to be significantly higher than the MTFS indicated, after allowance for the change in the cyclical position. The actual outcome will, of course, depend on the decisions which go into the Chancellor's forthcoming Budget — and these have yet to be taken.

MR WIGGINS

cc Sir Anthony Rawlinson
Mr Littler
Mr Unwin

FST's SPEECH

You asked for factual comments.

2. The section on public expenditure is on pages 17 and 18. There are two errors of fact:

(i) "Total expenditure, in real terms will be very slightly higher this year (1980-81) than it was last."

The latest forecast change in the "planning total" is +2.3%.

The Chancellor said in his November statement that the outturn was likely to be 1½% higher than planned in the March White Paper for this year. (That level is virtually the same as the outturn for 1979-80 given to the Treasury Committee in December).

The reference in the speech to the PSBR being higher than forecast in November could (correctly) give the impression that expenditure also is higher, and so the increase is more than 1½%.

(ii) "the medium term financial strategy sets out a steadily declining trend, until by 1982-83 it [public expenditure] should be some 4 per cent lower than in 1979-80 - the year in which we took office - and 11½ per cent lower than the planned figure we inherited from our predecessors. We are determined to keep to that path."

On a point of detail, 1982-83 should have been 1983-84: the March White Paper showed falls of 3.7% and 4.0% respectively by the two years. (General Government Expenditure - the figure quoted in the MTFS - falls by 5% or so.)

Economic developments in the last 9 months, and the Cabinet decisions in the autumn make regaining that path unattainable.

The Chancellor said in November that the result of the recession and of the decisions then announced would be to result in a higher planning

total for 1981-82 than planned in March (implicitly 1½-2%) and left the implication that the higher figures would continue into later years.

The figures now suggested for the PEWP (a submission en route to the Chancellor) show the planning total for 1982-83 virtually identical with the latest outturn figure for 1979-80. The figure for 1983-84 is 1½% lower.

J.M.B.

J M BRIDGEMAN
15 January 1981

PRIME MINISTER'S QUESTIONS: THURSDAY 15 JANUARY

NEB: SIR LESLIE MURPHY'S SPEECH TO THE ROYAL INSTITUTE OF PUBLIC ADMINISTRATION

In his speech to the RIPA last night Sir Leslie Murphy was critical of the present Government's policy towards the NEB. He believed demands for its services would increase in 1981 because of the present level of profitability in the private sector and believed that it could carry out monitoring of major state holdings, such as BL, more effectively than Ministers and civil servants.

Line to take

The Government's policy has been quite clear. As my Rt Hon Friend said in his statement on the NEB on July 19 1979, when Sir Leslie Murphy was still Chairman, we favour the encouragement of private initiative and enterprise, not the promotion of public ownership. Until we have been able to restore the full vitality of the private sector, however, the NEB does have, in addition to its regional and small firms functions, a role to play in investing in high technology industries, where the returns are longer term and private industry is reluctant to invest on its own at present. As far as possible the NEB's investments should be in partnership with the private sector and its holdings should as soon as commercially practicable be disposed of to private ownership. How long the NEB has such a role to play depends not on dogma and prejudice, as Sir Leslie has suggested, but on the purely external factor of the degree to which profitability has recovered in the economy generally.

SUPPLEMENTARY QUESTIONS

Q When will a decision be announced on the new Chairman of the NEB?

A A number of names are under consideration at present but no decision has yet been taken. An announcement will be made before the end of the month when the present acting Chairman, Sir John King, is due to take over as Chairman of British Airways.

Q Did Sir Arthur Knight and other Board Members resign over a disagreement with the Government, eg over the new financial duty?

A As my Rt Hon Friend, the Secretary of State, told the House on 1 December Sir Arthur Knight resigned for personal reasons. Other Board Members have resigned because their services have been needed elsewhere. There is no disagreement between the NEB board or previous Chairman and the Government. The statement which my Hon Friend the former Under Secretary of State for Industry made on 11 December about the new financial duty was agreed in advance with the NEB and incorporates those features which they specifically requested.

Q Is responsibility for BL to be moved from the NEB to the Secretary of State?

A The question of responsibility for BL is being considered in the context of the Government's present consideration of the BL Corporate Plan.

Q Why is the present Industry Bill increasing the NEB's limit, as Sir Leslie pointed out, when the previous 1980 Industry Act reduced it?

A The increase in the NEB's limit in the present Industry Bill (which is at present a purely token £1m increase pending the outcome

of the decision on BL's Corporate Plan) is solely for BL. This does not represent any change in our policy to the NEB. As my Rt Hon Friend the Secretary of State made clear in the Industry Bill Second Reading on 1 December we wanted to give the House a full opportunity to debate the new limits for BL and Rolls Royce with new legislation, when the Goverment had had an opportunity to study the companies' Plans.

Lecture to be given by Sir Leslie Murphy
on Wednesday, 14th January, 1981
at the Royal Institute of Public Administration

REFLECTIONS ON THE NEB

The NEB had its origin in the White Paper issued by the Labour Government in August, 1974. This White Paper was entitled 'The regeneration of British Industry.' The first four paragraphs of the Introduction to that White Paper contained a very fair analysis of the position of British industry and concluded with the following passage:

> 'Industry and the Government should be partners in the pursuit of the objectives which spell success for industry and prosperity for the country. This requires a closer, clearer and more positive relationship between Government and industry.'

So far, so good. It then went on:

> 'The construction of that better relationship requires the development of new institutions. This White Paper sets out the Government's proposals for achieving these results.'

The two new institutions were Planning Agreements and the National Enterprise Board.

The proposals regarding Planning Agreements were received with open hostility from the CBI and from Industry at large. Planning Agreements were seen as a means by which the Labour Government could obtain a substantial degree of control over the operations of

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industrial companies. They were associated in people's minds with Mr. Benn's announced objective of obtaining control of the 25 largest industrial companies and although this objective was repudiated by Sir Harold Wilson, the suspicion remained. Planning Agreements were also opposed by industry because they were intended by the Labour Government as a method of forcing companies to accept greater participation by trade unions in strategic planning.

The White Paper also stated that the discussions between the Government and industrial companies prior to the conclusion of a Planning Agreement 'could help to identify requirements for investment funds for consideration by the NEB, if necessary by means of joint ventures with the companies.'

Thus there was, with some justification, a belief that the NEB would be an integral part of the planning agreement process. In fact the NEB distanced itself ab initio from planning agreements, but this belief persisted for some while. This was the first handicap that the NEB had to overcome.

The White Paper proposals were carried out by the Industry Act of 1975 which set out the functions of the NEB. Clause 2 (2) (c) gives as one of the functions:

> '..extending public ownership into profitable areas of manufacturing industry.'

Here again is the Benn objective. Moreover, we have to remember the provisions of Clause 4 of the Labour Party Constitution:

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> 'To secure for the workers ....the common ownership of the means of production, distribution and exchange and the best obtainable system of popular administration and control of each industry and service.'

Many people therefore regarded the NEB as a 'back door' means of nationalisation, and this was the second handicap.

The result of this was that the formation of the NEB was greeted with hostility by the CBI and by a large part of British industry. The Conservative Party announced its intention of abolishing the NEB when it returned to power.

So the NEB became another example of the results of the continuous strife between the two major parties as to how to deal with industry. In this strife, the merits of the case are ignored. The left wing of the Labour Party continues to press for more and more public ownership, ignoring the very mixed record of the publicly-owned corporations over the last 30 years. The right wing of the Conservative Party sees no merit in anything except private enterprise and market forces, ignoring the failures of the first and the gaps in the second. I must confess that I have become sick and tired of this sterile confrontation. What a relief it would be to have a Government that addressed itself objectively to find the best solution of each problem, and put away dogma and prejudice. If the debate about the Centre Party were to take us along this road, I for one would be an enthusiastic supporter.

The first task of the NEB then was to try to overcome the handicaps with which we were lumbered initially. We did this in five main ways:

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(a) We emphasised that we would approach our tasks in a commercial fashion. We were concerned with securing an adequate rate of return on our investments, even though we recognised that we might have to wait a much longer time to secure those returns than the market would be prepared to do. We also decided that we would not go on supporting an enterprise if we could see no possibility of a viable operation emerging eventually.

(b) We underlined the need for sound management of our subsidiary companies and refused to get involved in day-to-day management decisions.

(c) We made it clear that the NEB had no involvement or part to play in Planning Agreements.

(d) We refused to acquire shares in profitable companies as an end in itself. All our investments were made in fulfilment of worked-out policies - development of a strategic plan in electronics, help for small companies, Regional investments and so on. But we would not use our financial resources to buy profits.

(e) We had no compulsory powers and would not use our financial strength to acquire companies against the wishes of the shareholders. An early example of this was the struggle between Guinness Group and White Child & Beney. At the request of the Chairman of White Child & Beney we produced an alternative scheme which would have

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frustrated the take-over of the company by the Guinness Group. Had we decided to go into the market and buy shares, we could undoubtedly have frustrated the Guinness bid, but we decided instead to leave it to the shareholders to decide which alternative they would prefer.

It was interesting that we were not put under any pressure by the Labour Government to behave differently, although this meant a very different NEB from that envisaged by Mr. Benn and Mr. Stuart Holland. In fact, one of the original members of the Board of the NEB commented to me recently that in his view the hallmark of the NEB had been its non-political approach.

How successful was this policy ? I think that it did bring about a real change in attitude to the NEB from all except the right wing bigots of the Conservative Party.

Firstly, the Conservative Party itself changed its attitude. Instead of being abolished, the NEB would remain but with a substantial modification to its powers and duties.

Second, the CBI's hostility largely disappeared. I remember one meeting of NEDC in which the late Sir John Methven stated, in answer to a question, that the CBI had no problems over the NEB.

Third, the attitude of the banks and financial institutions changed. The clearing banks and some of the insurance companies entered into joint ventures with the NEB. Some of the banks, at their own request, seconded staff to the NEB in order to bring about a better understanding of how it was working.

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Lastly, we were able to establish joint ventures with some overseas companies. I well remember the first meeting I had with the representatives of the Swiss company, Brown Boveri. They were extremely apprehensive at the prospect of having the NEB as a shareholder and were very suspicious of our motives. But as time passed we became firm friends and I think that eventually they were very happy to have the NEB as a shareholder.

So, on the whole, I think that we did succeed in establishing the NEB as a businesslike, efficiently run organisation. Of course, we made mistakes. We tried to do too much too soon and as a result some of the early investment decisions were based on inadequate market research. But although, as I have said, we were not put under pressure by the Labour Government, we were conscious of the duties placed upon us by Parliament and of the very large financial resources placed at our disposal.

In 1976 the NEB invested £73m. in 13 companies
In 1977 it invested £200m. and had interests in 33 companies
In 1978 it invested £359m. and had interests in 46 companies
In 1979 it invested £252m. and had interests in 70 companies including RR and BL.

This is a very rapid rate of growth, starting from scratch, and I would have preferred to have taken it more slowly. But remember the vociferous and absurd cry from the left wing of the Labour Party that the NEB should spend £1bn. a year!

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At the time of the election in May, 1979 we had established five major roles for the NEB and I would like to discuss and comment on each of these.

The first role was to act as a state-owned industrial holding company and to try to bring about the success of the principal subsidiary companies in the Group.

I set out my views as to how the NEB approached this task in the 1978 Annual Report. A year's reflection has made no difference and I was most interested to read the following passage in Sir Arthur Knight's statement in the 1979 Annual Report:

> 'As to the managing of investments, I cannot improve upon the statement of my predecessor in his report last year

In spite of this, Sir Arthur Knight went on to say:

> 'My Board and I made it plain

I find it difficult to understand the logic of the second statement. In fact, before our resignation, the role of the NEB in relation to BL was neither illusory nor minor. Let me go over some of the action for which the NEB was responsible.

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Firstly, in regard to the approval of the plans of BL. It was the NEB that stopped the £150m. foundry programme - twice submitted by BL - because it did not consider the programme could be justified in the light of the funds available and it preferred that BL should become more reliant on outside suppliers. It was the NEB that stopped BL's plans to build a new centralised engineering centre at a projected cost of £65m. It was the NEB that reduced the funds to be allocated to BL in 1979 from the £300m. requested by BL management to £150m. The Department of Industry and Ministers were involved in none of those decisions.

And, of course, it was the NEB that removed the Chairman and Chief Executive of BL and appointed Sir Michael Edwardes instead. And although the Government's approval of that appointment was necessary, the invitation to Sir Michael was given and accepted before the request for Government approval was submitted.

Sir Michael has now established himself as a major figure in the industrial scene and has managed BL with great skill, judgment and enthusiasm. I yield to no one in my admiration for what he has done and for the personal qualities he has brought to his tasks. But I know that he would admit that at the beginning he needed the support of the NEB. The closure of Speke, for example, was only possible at the time because of the support given by the NEB to the BL management, which had not then proved itself. It says much for the wisdom and farsightedness of the four trade union leaders who were then members of the NEB Board that they were prepared to back the BL management in the difficult decisions that had to be taken.

To-day the BL management has proved itself and has put BL back on the road to viability although there is still a long way to go. But BL is still supported by public funds and is not yet ready to be returned to the private

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sector as a free-standing company able to finance itself on the market. So the tasks of monitoring performance, approving plans and programmes and of appointing the Board and management still have to be performed. And at some time, a successor to Sir Michael will have to be found.

I see no ground for changing my view that this role is best performed by an industrial holding company composed of senior businessmen and trade unionists, rather than by Ministers and Civil Servants. Had it not been for the decisiveness of the NEB, I do not think that Ministers and Civil Servants would have made the management changes in BL that were essential for its future. And in the case of RR, they showed a marked reluctance to allow the NEB to take the action that the Board judged to be necessary.

I do not want to dwell on the disagreement over Rolls-Royce. The reasons why the NEB was dissatisfied with the situation and sought to make changes have been stated very clearly in the past.

Of course, the strength of the pound - which no one forecasted has made matters far worse. But the salient fact remains that RR will not be able to compete successfully with the American companies unless it can reduce its unit cost to a figure approaching theirs. We felt that the management of RR had not tackled this problem with sufficient energy and professionalism and that the very large expansion in production and sales at the prices at which business was being taken could not be justified unless this was done.

But for this system to work, two conditions are necessary. Firstly, Ministers must be prepared to allow the NEB to operate. It is much to the credit of Mr. Varley when he was Secretary of State that he did this. I contrast his attitude to that of Sir Keith Joseph, who wishes to take the decisions himself. Indeed, I well recall a conversation with the present Prime Minister when she was Leader of the Opposition. I was explaining to her my concept of the role of the NEB and of how it operated and she interrupted me to say that because taxpayers' funds were involved, Ministers must take the decisions. For good measure, she added that in her view it was impossible for a State Corporation to be run along commercial lines.

So long as Ministers hold these views then it becomes very difficult for a State holding company to discharge its role effectively.

The second condition is that the role of the NEB is accepted by the managements of its subsidiary companies.

There is a real difficulty if the Boards of the NEB's subsidiaries are not prepared to be monitored by the NEB or to accept its judgments regarding their plans and programmes. I am conscious that the distinguished businessmen appointed to the Boards of the subsidiaries often match in experience and in judgment the members of the Board of the NEB itself; this is very desirable since one wants the best Boards and managements one can get for the subsidiaries. This would not matter if the concept of a state holding company operating in the same way as an industrial holding company in the private sector were accepted. But the Chairmen of the large subsidiaries were not members of the NEB Board, as they certainly would be in the private sector, and there was no sense of a common purpose and objective as would be found in ICI or Shell. One of the reasons for this is the political controversy surrounding the formation of the NEB; another is the short time the NEB has been in existence. It takes a long time to build up traditions and a feeling of belonging to a group with common purposes and objectives.

I have also pondered the desirability of appointing non-executive directors on the Boards of the NEB's subsidiaries. I am aware that the difficulty with BL over the role of the NEB was mainly because the non-executive directors felt that it was the Board of BL that should be the place where decisions were taken subject to the necessary Ministerial approval. On balance, I remain in favour of having non-executive directors on the Boards of major subsidiaries provided that they accept that the NEB <u>is</u> performing a different role and is not trying to duplicate management's job. I think, however, that it is most desirable to have an interlocking Board membership - either through the Chairman or through other Board members to prevent the build-up of adversary situations.

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I doubt that much of this is acceptable to the present Government at this stage, but I still believe that the need for the NEB will continue and I am looking ahead to the type of organisation and the method of operation that may evolve in a few years' time.

The second major role of the NEB was the development of an industrial strategy. We had made some progress towards this before the change of Government. Apart from automotive products, new engines and machine tools, we had a major presence in computers and electronics, and we had started to develop holdings in scientific and medical instruments, office equipment, process control electronic test and measuring instruments and off-shore engineering. We had also started investigation of bio-technology which has since matured into a substantial new investment.

We were gradually building up experienced and expert staff in these major sectors, since I am convinced that this must be the basis of a successful investment approach.

Unfortunately, the new Government doesn't believe in an industrial strategy. Indeed, I was advised by the Civil Service after the change of Government to play down the NEB's industrial strategy approach because it would be likely to be counter productive in dealings with Sir Keith Joseph.

If you study the 1978 Annual Report of the NEB, you will see that its holdings were grouped in accordance with its industrial strategy - all the computer and electronic companies together and so on.

But in the 1979 Report this was changed and the holdings were listed alphabetically. What nonsense this is. I understand the need for the change of attitudes in industry to which Mrs. Thatcher is constantly referring. I agree that inflation must be brought down; that wage and

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salary increases must be paid for by increased productivity, that we must become more competitive. But these exhortations alone are not enough; we shall fail to cure the deep-seated problems that afflict our society - unemployment, decrease in living standards, falling behind in the technological race unless we develop an effective industrial strategy.

I was a British delegate to the recent Franco-British Conference in Bordeaux. I was impressed by the comments of one of the French delegates who said that he failed to understand the attitude of successive British Governments to industry which he characterised as theoretical, dogmatic and lacking in continuity. He contrasted this with the attitude of French Governments which he said was pragmatic and inspired by a sense of the need for continuity. The French Government recently published the list of sectors to which it proposed to give priority in its industrial strategy. It was virtually identical with that listed in the NEB's 1978 Annual Report.

Some of you may have read Professor Jim Ball's article in the Financial Times on the last day of 1980. I invite your attention to the following passage:

> 'Practical monetarists have never supposed that policies such as those associated with the medium-term financial strategy could ever do so' (i.e. cure the problem of core unemployment). 'Their initial position rests on the argument that, unless financial and monetary control is achieved and inflation held in check, nothing will ever come right. It is a necessary but not a sufficient condition for ultimate success. To go further is to require the development of a coherent industrial strategy within the framework of the medium-term financial strategy.'

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I say Amen to all that. But what chance do we have so long as Sir Keith Joseph remains Secretary of State for Industry, since he doesn't even believe in the need for an industrial strategy.

I will refer briefly to the remaining three roles of the NEB - support for small companies, support for exports and support for Regional initiatives. All these are important and I think that the NEB has indeed had a catalytic role in bringing about a much greater awareness of the need for wider bases of support for these initiatives.

I am running out of time, but I want to deal with the other changes made by Sir Keith Joseph in the 1980 Industry Act.

The NEB's duty to promote industrial democracy was repealed. I do not think that we have heard the end of this. The NEB was an example of a two-tiered Board structure. Trade unionists participated on the Board of the NEB but not on the management Boards of the subsidiaries. I found this worked very well and the presence of trade unionists on the NEB Board was valuable. They brought their own direct experience to our deliberations and this was helpful; they also were made to face the necessity for taking difficult decisions and they did not run away from them. This was very good for them. But I would not in any circumstances appoint trade unionists to the management Boards. Broad policies and strategic decisions yes, but on management matters they have a conflict of interest which in my view is insuperable.

The total borrowing powers of the NEB were substantially reduced. This was stupid. Sir Keith now has to go back to Parliament to increase them back to where they were before. How humiliating.

The old IRC function of re-organisation and reconstruction was abolished. I have mixed feelings about this. We tried to bring about change in four cases - power plant construction, telecommunications, hydraulics and industrial engines - and we failed.

We failed to persuade the companies concerned to agree to our proposals and we were not prepared to force our proposals through against opposition. In addition, we were conscious throughout that the Department of Industry quite liked that sort of activity themselves. One of the companies we failed with was Massey Ferguson. We had many discussions with that company three years ago because we realised that Perkins was being starved of the capital it needed to develop its business. Eventually we proposed a major injection of funds into Perkins in return for 51% of the equity, but we could not agree on the price.

On balance, I think it was a mistake to prevent the NEB from being involved in exercises of this kind, although we had no record of success. At least it could be a spur to the private sector to take appropriate action.

Lastly, there was the new duty of disposal of investments. Here again, I think that the Secretary of State erred in forcing disposals on the NEB irrespective of the effect this would have on its financial performance. I agree with Sir Arthur Knight that it is important for the NEB to have a proper commercial target, both for internal purposes and as an objective test of performance. I did not want to see the NEB becoming larger and larger and more difficult to manage. I agreed with the concept of returning investments to the private sector and the NEB had done so in several cases. I had no objection to being given the duty to dispose provided that the decisions were left to the NEB in the light of its other - any in my view more important - duty of achieving a rate of return broadly comparable with the average of manufacturing industry. As Sir Arthur Knight said, this can only make sense if the NEB maintains profitable investments as a means of supporting its new projects during the start-up and loss-making years.

The proposals regarding financial performance made by Sir Keith Joseph on December 11th do not seem to me to be

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an adequate substitute for the very clear financial duty established by the previous Government. Disposals are to be compared with the F.T. actuaries share index on a cumulative basis and earnings of companies retained are to be compared with the NLF loan rate.

I wonder whether the NEB had accepted these proposals before they were announced to the Standing Committee? Perhaps the acting Chairman would be good enough to tell us.

The concept of total return on investment is very familiar to anyone involved in managing an investment portfolio. But for this to make sense, the managers must be free to decide commercially when to sell and also be free to retain and re-invest the proceeds. It is a nonsense to attempt to measure performance on disposals when these are dictated by political dogma and forced through irrespective of the state of the market.

Where does all this leave us ?

I claim that, taking into account the political controversy and short time it has been in existence, the NEB has performed much better than could have been expected. It had major successes with Ferranti, Fairey and some small companies. It did not succeed with Alfred Herbert, it failed with Sinclair, British Tanners and some small companies. It showed great resolution and decisiveness in dealing with BL and RR. It took a number of important initiatives in the field of high technology, notably Inmos, Nexos, off-shore engineering and bio-technology. These new high technology companies could be of great significance to the UK's future and I was delighted to hear that Inmos had invoiced its first sales in 1980. I am still very optimistic that Inmos will justify the faith that my Board and my successors have placed in it.

/...

But the NEB has been severely shaken by the successive traumas which have overtaken it since the election. The principal reason for this is the attitude of the Secretary of State himself. For although on numerous occasions he tells the House of Commons that the NEB has a role - not as wide as under the Labour Government but nevertheless important - he also makes it clear that he himself does not really believe in the NEB and hopes that in time it will wither away. The effect of this, of course, is that it becomes increasingly difficult to find the calibre of staff that the NEB needs. It is a tragedy that the fine team that I built up at the NEB is fast disappearing. Of the 13 senior executives that comprised my team, only 5 are left and I wonder how long they will stay.

I am not alone in forecasting that 1981 will bring great difficulties to British Industry. I am sure that we shall see a gradual change in the attitude of the Department of Industry as more and more firms get into difficulty. I just hope that the Secretary of State will give sufficient backing and support to the NEB so that it will be able to perform satisfactorily when its services are more and more in demand.

8.1.81.

cc Mr. Pattison

PRIME MINISTER

Ind Pol.

NEB Chairmanship

The media coverage of Sir Arthur Knight's resignation, as you will have seen, has so far not been too bad. However, Sir Keith believes that he now needs to make a statement as soon as possible. He will be speaking in the second reading debate on the Industry Bill on Monday afternoon, and provided by then he has established that the other NEB Board members will go along with having Sir John King as acting Chairman, he proposes to announce in his speech that Sir John will take over temporarily.

I have told Industry that I am sure you will be content with this. But I thought I should mention it to you. Content? Yes excellent.

As a matter of formality, I am also ensuring that CSD are aware of what is going on.

S.J. Pike

pp TIM LANKESTER

Told Ellison (DoI)

29 November 1980

1/12

Copy in Appointments.

N.

CHARLTON END
SINGLETON, NR. CHICHESTER
WEST SUSSEX PO18 OHX

28th Nov 1980

Dear Keith

Peter Carey will have told you of our conversation on Tuesday of this week when I said that, for personal reasons, I wish to give up the N.E.B. chairmanship as soon as convenient – preferably by the end of the year but continuing till the end of February if this will help.

We agreed to keep this confidential whilst Peter looks at possible succession arrangements. I have told my Board colleagues in confidence

Copy in Appointments.

I will write formally later.

Yours

Arthur Knight

CONFIDENTIAL

PCC(80)18

2

PRIME MINISTER

MS

mt.

INDUSTRY BILL

It is hoped that the attached brief will prove of use for the Second Reading Debate on the Industry Bill on Monday 1st December 1980.

Contents

Conservative Research Department
32 Smith Square, London. SW1

RH/CFM
28.11.80

i) Introduction: Purposes of the Bill

This is the Conservative Government's second Industry Bill. The first Industry Bill (now the Industry Act 1980 having received the Royal Assent on 30th June) modified the functions of the National Enterprise Board, Scottish and Welsh Development Agencies and the English Industrial Estate Corporation and gave statutory force to changes already given effect in regional policy.

The purposes of this second Industry Bill are very different. They are four-fold and largely independent of each other; this is reflected in the quadri-partite structure of the Bill. The first section (clauses 1 and 2) relates to the need to set new financial limits for the NEB and the Secretary of State, which in fact means for British Leyland and Rolls Royce. This is the main purpose of the Bill.

The second section (clauses 3 and 4) relates to the future setting of financial duties for the NEB and the Scottish and Welsh Development Agencies, adjusting their capital base accordingly. The financial duties themselves will be published in due course and will reflect the changes made in their functions by the 1980 Industry Act and the guidelines issued under it.

The third section of the Bill (clause 5) relates exclusively to the extension of the operation of two special schemes of redundancy payments by British shipbuilders and by Harland and Wolff. The schemes would otherwise expire on 1st July 1981. Although the Bill does not itself extend the schemes the Secretary of State will be coming before the House of Commons with an order which would provide for this to be done.

The fourth and last section of the Bill deals solely with the separate question of the Government's response to the Finniston Report on the Engineering profession. Clause 6 allows the Secretary of State to make grants or loans to any body which he considers appropriate to assist in promoting engineering and improving links between industry and educational bodies, and to guarantee obligations incurred by a body established by Royal Charter for this purpose.

The Bill would, as its financial memorandum makes clear, have an impact on public expenditure. The first section makes provision for further public expenditure within the Government's future public expenditure plans. The restructuring of the capital base of the NEB and the Development Agencies covered in the second section of the Bill relates to public expenditure already incurred, so there are no additional public expenditure effects. The third section's impact through making possible an extension of the redundancy payments schemes will depend on Parliamentary approval of an order and on the amount of capacity reduction in the shipbuilding industry. The average payment under the schemes is about £3,300 per employee. The final section, relating to the engineering profession, is described in the Financial Memorandum as not implying an increase in the £1 million the Secretary of State already incurs for the purposes described therein.

ii) Clauses 1 and 2: British Leyland and Rolls Royce

a) The Financial Limits

Clause 1 increases the National Enterprise's financial limit to £2,251 million and sets a new limit for the purposes of section 3 of the 1980 Industry Act at £1,500 million. These new limits refer principally to British Leyland and Rolls Royce.

The NEB's present limit is £2,250 million of which £1,500 million is for British Leyland. The rest of this sum is used for financing the NEB's other investments. The increase of £1 million for which the Bill makes provision is, of course, a token figure, which will be amended when the Government has concluded its consideration of BL's corporate plan and made a decision upon the financing of its future investment.

The Secretary of State's limit made under S.3 of the 1980 Act is to be increased from £750 million because of the increased cash requirements of Rolls Royce. It will be remembered that Rolls Royce was transferred from the control of the NEB to the Department of Industry in November 1979, a move which precipitated the resignation of Sir Leslie Murphy and the rest of the Board. The Secretary of State's decision to transfer control of RR to himself was taken because of the special needs of the company, its uniquely prestigious role in world markets, its heavy cash requirements, its close relations with and dependence on government as purchaser - and because the NEB's own role monitoring RR's performance was in fact of small importance. The increase of the Secretary of State's financial limits for which this Bill makes provision reflects these circumstances.

b) The Needs of British Leyland

The details of BL's corporate plan, which has been submitted to the Government, have not been published, although it is widely reported that Sir Michael Edwardes may have requested a further £800 million or £1,000 million over the next two years for restructuring and new investment. BL's ambitious recovery plan has only made its first costly step forward with the apparent success of the Mini-Metro, which captured about 7 per cent of the market during the firs 19 days of this month, pushing BL's home market share of new car sales up to about 24 per cent.

The Metro plant at Longbridge required about £275 miilion in investment, but the development costs of the rest of BL's new range are likely, according to reports, to be relatively less. The new Honda-Bounty to be built at Cowley, Oxford will probably have required less than £100 million by the time of launching later next year. Production will be about 2C00 a week, 1000 less than the Metro's current rate. The new medium range LC 10 which is scheduled for launching in 1982/3 and which will replace the Maxi is now to be built at Cowley and will require rather more investment; it is the main potential recipient of BL's requested cash and BL consider it should be profitable. BL also wish to develop a new Jaguar code-named XJ40 reportedly to be launched in 1984 at a cost of £70 million.

The acceptance of BL's recent 6.8 per cent pay offer after a majority of factory meetings voted against disruptive action has demonstrated welcome realism among the work-force and the recent strike which held up Metro production has come to an end. However, the Government will be making its decisions on the corporate plan bearing in mind the difficulties which the automobile industry is facing world-wide and the fact that BL made a substantial loss of £155 million in the first half of this year. There will be a Parliamentary debate on BL funding.

c) The Needs of Rolls Royce

Rolls Royce's overall position is, of course, very different from that of BL. RR's order books are healthy; but its profitability is poor. Indeed its net loss in the first half of 1980 nearly doubled to £17 million. In 1979 as a whole RR lost £63 million. The main problem RR has been facing is that the increase in the value of sterling has worked against its profitability, particularly in its US sales. The House of Commons Public Accounts Committee has criticised the monitoring of RR's exchange rate assumptions for those of its contracts for which payment was to be received in dollars. RR is, however, still battling with its American aero-engine competitors in order to gain further very valuable orders for its latest version of the RB 211.

The Government has already had to make further provision for Rolls Royce for this financial year. On 28th April 1980, Mr. Adam Butler, Minister of State for Industry, announced that in the light of the company's additional cash requirement of £180 million the Department of Industry would issue new equity equivalent to certain loans from the Do I to be repaid in 1980 and "modify the terms of the levy which the Government charges the company to recover the development finance for the RB 211 engine".

iii) Background to Clause 6: Response to the Finniston Report

The Committee of Inquiry into the Engineering Profession under the Chairmanship of Sir Monty Finniston was set up by Mr. Eric Varley, thenSecretary of State for Industry, on 5th July 1977. On 16th November 1979 - at a cost of £401,130 - it was presented to Sir Keith Joseph.

The most important recommendation of the Finniston Report (for details of which see CRD Brief PCC (80) 9 of 1.6.1980) was for the setting up of a new Engineering Authority to act as an "engine for change" to overcome the "inertia and negativism of prevailing attitudes towards engineering".

The Authority would

"- promote the engineering dimension in all areas of the UK economy in furtherance of national economic needs.

- initiate, maintain and otherwise encourage activities directed at ensuring the continuing supply and best use of engineering manpower.

- work with all bodies and institutions whose activities affect national engineering capabilities in all sectors in order to enhance these capabilities" (pp 152-3)

The Report emphasised that the Authority should have a statutory base and direct funding of its own. Its Executive Board would consist of 15 to 20 members, initially appointed by the Secretary of State, in consultation with other relevant bodies. Subsequently, when fully established it would be possible to have a system of elections. Below the Chairman and Members would be standing and task committees. The Authority would "in nearly all respects" (p. 156) work through other institutions.

The Authority would need to be funded for its executive functions especially the accreditation of courses and the operation of the register and for the provision of finance for special studies and priming education and training schemes.

The Finniston Report estimates the annual total cost of running the Authority as £10 million p.a. at current prices. It envisages that these costs could be offset "slightly" (p. 157) by charges. There is also the possibility of some activities being jointly funded with industry.

The Authority would report annually to the Secretary of State.

Reactions to the Report were mixed. The Council of Engineering Institutions, for example, rejected the need for a new authority. The Institute of Mechanical Engineers wanted a new body funded by the engineering profession rather than a 'quango'. The CBI plumped for an Authority operating under Royal Charter and governed mainly by practising engineers.

The Government studied the report and the reactions to it. On 7th April 1980 Sir Keith Joseph announced the Government's proposals which lie behind clause 6 of this Bill.

He said:

> "The Government does not propose the establishment of a statutory body. Instead it proposes to facilitate the emergence of such a focal point by recommending to the Privy Council that Her Majesty the Queen should be advised to constitute a new body by Royal Charter. The Government, after full consultation with those concerned, would be prepared to nominate the initial members of this body, but only for a limited period. The central responsibilities of the body would be similar to those recommended by Finniston centering upon the accreditation of engineering education and training and the formal registration of those engineers qualified thereby. However, instead of the new body itself organising accreditation visits and assessments of individual registrants, I would expect this work to be delegated to nominated institutions, the new body simply determining the standards to be applied. The Government would expect the Chartered body to become quickly self-financing but the Government will be prepared to support initial funding."

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Copied to Master Set

cc Hoskyns Vereker Gow Press File

HS

10 DOWNING STREET

From the Private Secretary

27 November 1980

Dear Ian.

As you know, the Prime Minister had lunch with the board of the National Enterprise Board yesterday. They had a wide-ranging discussion, but the following issues in particular came up:

(i) INMOS. It was explained that INMOS was part of the new board's inheritance and a good deal of scepticism was expressed as to the Company's prospects. The Prime Minister said she shared this scepticism, but at least the Government had been able to insist that the INMOS factory be located in a development area.

(ii) NEXOS. Sir George Macfarlane explained the technology underlying this project, and argued that there was a real prospect of a "winner" here. There was no other British company which seemed interested in the technology that NEXOS were developing, and there was a huge potential market for their product. Other board members seemed less confident: in particular, Sir John King suggested that the risks were too great and that if private companies were not prepared to enter the high technology office equipment field, it was doubtful whether the NEB should be using Government money to do so. He generalised this point to suggest that the NEB was not equipped to select and promote new high technology business. The Prime Minister said that she shared some of Sir John's doubts. Sir Arthur Knight, however, pointed out that the promotion of high technology was one of the tasks laid down in the Government's guidelines to the NEB, and he argued that the NEB could provide effective encouragement for such business. But he also explained that this was only a small part of the NEB's current activities: its main task was to ensure that the existing investments were well managed so that they could in due course be sold off.

(iii) Promotion of small companies. Sir Arthur Knight having explained the Venture Capital Fund project, the Prime Minister said that she very much hoped that the NEB would concentrate their resources on promoting small businesses. She would prefer to see the NEB's funds spread around small companies rather than concentrated in larger ventures such as INMOS and NEXOS. At the same time, she thought that the banks and other private financial institutions - though they were insufficiently prepared to take risks at present - were likely to be more effective at providing finance for small firms. On the other hand, it was argued by Mr. Emms

/ that there

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that there was no shortage of finance at present - only a shortage of small business applicants. Mr. Stevenson said that this was the inevitable consequence of the recession, but he was concerned that when the upturn came there would still be a dearth of new businesses starting up. The reasons for this were very deeply seated, but the Government ought to consider mounting a publicity campaign during the next twelve months to change people's attitudes towards business and encourage new business endeavours.

(iv) NEB/NRDC overlap. Sir Arthur Knight said that there was a clear overlap between the NRDC and the new technology activities of the NEB; he suggested that the Government might in due course decide to merge the two bodies.

As regards the last point, the Prime Minister - as you may know - has been critical for some time of the NRDC's capacity to spot technological "winners" and to translate them into commercial propositions. She was interested in Sir Arthur Knight's suggestion, and has asked if your Secretary of State would set in hand an examination of the possible merger of the NRDC with the NEB - with a view to reporting back to her in due course.

Yours ever,

Tim Lankester.

Ian Ellison, Esq.,
Department of Industry.

NPW

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Copied to Master Set.
Copy in Appointments.

NOTE FOR THE RECORD

Sir John King and Mr. A.H.A. Dibbs called on the Prime Minister at 1900 hours last night.

They reported to the Prime Minister that, immediately after she had left the NEB lunch that day, Sir Arthur Knight had returned to tell the other members of the board that he intended to resign. He had told them that he had spoken to Sir Peter Carey to this effect the night before. They had come to see the Prime Minister to tell her how deeply embarrassed they were that she had lunched with the board in these circumstances; and they deeply regretted that she had not been told of Sir Arthur's intended resignation in advance.

They went on to say that Sir Arthur had also announced, after her departure, that the NEB Chief Executive, Ian Halliday, had been dismissed: the board had discussed Halliday's possible departure some time ago and had decided that he should go in due course, but Sir Arthur's announcement that he should definitely resign - again coming immediately after the lunch - had also been a great surprise. Sir Arthur had also told them that he intended that Brian Willott, the Secretary of the NEB, should take over as acting Chief Executive.

Sir John King said that Sir Arthur had given the impression that, although he had apparently told Sir Peter Carey of his intentions the night before, he had waited to see what the Prime Minister had to say before taking a final decision. Mr. Dibbs, however, said that he was sure Sir Arthur had already made up his mind in advance, and that what had happened at the lunch had nothing to do with it. Nonetheless, he was naturally concerned that news of the resignation might leak and that it might be linked to the Prime Minister's attendance at the lunch. The board had agreed to keep the resignation to themselves, but there was every chance that it would get out - particularly since Halliday and Willott were aware of it - as they had been present when Sir Arthur had spoken to the board.

/ Sir John King

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Sir John King said that he was shocked that Sir Peter Carey had not informed the Prime Minister in advance, nor - apparently - Sir Keith Joseph. (It was later confirmed that Sir Keith had not been informed until yesterday afternoon i.e. after the lunch.) He and Mr. Dibbs had decided that they would stay on the NEB board for the time being until a good successor had been found. But they very much hoped that the new Chairman would be selected on the basis that it would be his job to manage the NEB's existing investments and nurse them back to the private sector where they really belonged - rather than engage in expansion, particularly into high technology, which had been Sir Arthur Knight's ambition. As they had indicated at the lunch, they did not believe the NEB was equipped to play a useful role in developing high technology industries; and they had gained the impression that the Prime Minister agreed with that. They proposed to suggest new terms of reference in the light of the steer which the Prime Minister had given at the lunch.

The Prime Minister thanked them both very much for coming to see her. She too was shocked that she had not been warned of the resignation, and she would bear in mind the points they had made about the future of the NEB.

R

27 November 1980

PRIME MINISTER'S LUNCH WITH THE NEB, WEDNESDAY 26 NOVEMBER

The lunch will provide a useful opportunity for the Prime Minister to assess the NEB's progress since the new Board was appointed a year ago and for an informal exchange of views on the way the NEB is operating under its new Guidelines.

2. All the Board members will be attending the lunch (list attached). Mr Allport (September) and Sir George Macfarlane (November) are recent appointments. Sir John King, who will become a part time member of the British Airways Board on 1 December and Chairman on 1 February 1981, plans to resign as Deputy Chairman of the NEB around the end of this year. Mr Dibbs will become Deputy Chairman of BA on 1 February but has agreed to remain with the NEB for a further few months.

Background

3. The Industry Act 1980 removed the Board's functions of extending public ownership and of promoting industrial reorganisation and industrial democracy. It also gave to NEB the new function of disposing of its assets to private ownership. Within this narrower framework, the NEB's new Guidelines (introduced in August 1980) have given the Board a catalytic investment role in connection with companies developing or exploiting advanced technologies; companies in the English Assisted Areas; loans up to £50,000 for small firms; and the Board's existing investments. The Guidelines also require the Board to seek maximum private sector participation in its new investments, and to dispose of all existing investments to private ownership as soon as commercially practicable.

4. The greater part of the Board's first year in office has been spent dealing with the immediatetasks of the Inmos review and of disposing of their shareholdings in ICL, Fairey and Ferranti. With these out of the way they have been giving priority to reviewing their other investments with a view to identifying further candidates for early disposal. Internally they have also been conducting a major review of the NEB's internal structure in order to stream line operations and ensure tight financial control.

5. This has allowed relatively little time for considering new initiatives but the Board have recently made promising investments

0.65 (7.75)

0.6 (10.25)

1.3 km

1¼ ?. mi

total

in a new biotechnology company (Celltech Ltd) and in a Venture Capital Fund to promote high technology projects in the English Assisted Areas.

Progress to date

(a) Disposals

6. The Board are well aware of the importance which the Government attaches to maintaining momentum in disposals and have established a special Division with this in mind. Since they were appointed in November 1979, the Board have sold the NEB's shareholdings in 8 companies in addition to transferring Rolls Royce to the Secretary of State. As part of their review of the NEB's other investments they have also put 6 companies into receivership or liquidation. In particular they decided in May 1980 that no further investment would be justified in Herbert Ltd, which has now gone into receivership following disposal of its various subsidiaries.

7. A list of disposals is at Annex B. Further candidates are under consideration.

(b) New investments - (i) - Inmos

8. Following the Government's approval of the NEB's Inmos review earlier this year, the company announced plans on 29 October to locate the UK factory at Newport in South Wales.

(ii) Celltech Ltd

9. At the end of July the NEB announced its plans to take a 44% stake in a new biotechnology company (now known as Celltech Ltd) to develop and sell to industry products and know-how arising from UK research in biotechnology. This will be based in particular on collaboration with the Medical Research Council. The remaining 56% is held by 4 private shareholders, each with 14% (Prudential Assurance, Midland Bank, British and Commonwealth Shipping and Technical Development Capital).

(iii) Venture Capital Fund

10. On 20 November the NEB announced the establishment of a £2 million Venture Capital Fund to be managed jointly by the NEB and Mr Jack Melchor, a US enterpreneur with a reputation for flair in identifying successful new technology projects. Its principal object is to invest with private sector partners in new high technology companies in the English Assisted Areas. Mr Melchor has already identified two potential US investors in the fields of video display terminals and micro-computer parts.

(c) NEB's Half Yearly Results

11. The NEB's Interim Statement published in October revealed a £5.8m loss after tax in the period 1 January to 30 June 1980. This was disappointing but not surprising. Losses in the three major high-technology start up companies (Inmos, Nexos and Insac) are unavoidable at this stage in their development and totalled £7.8m. Herbert's lost £2.6m (hence the decision to close the company), and the disposal of ICL removed one of the NEB's high profit makers.

Relations with Government

12. Board members may raise the following:

(a) BL Ltd - The NEB have made it clear that they are anxious to hand over responsibility to HMG as soon as possible. The Secretary of State wrote to Sir Arthur Knight in July to explain that any decisions on a transfer could most sensibly be made at the same time as the Government took a view on the 1981 Corporate Plan. If BL is raised the Prime Minister might confirm that she is fully aware of the Board's strong preference but a final decision should await consideration of Corporate Plan.

(b) NEB's Financial Duty

The previous financial duty which gave the NEB the target of achieving a rate of return on capital of 15-20% by 1981 is now inoperative because of the Board's disposal of its profitable investments.

Discussions have been taking place on a new form of duty with the aim that this should come into effect on 1 January 1981. To clear the way for this, the new Industry Bill provides for the writing off the NEB's irreparable losses made under their previous Guidelines The Board are anxious that the duty should be 'commercial' to facilitate their task of securing private sector participation in their investments. The Department of Industry accepts this broad objective but is anxious to ensure that the new duty preserves the NEB's disposals' function while providing an adequate framework of accountability.

If the financial duty is raised the Prime Minister might note what the Board has to say. The duty is a complex issue which officials will have to explore very carefully.

(c) Membership of the Board

Further appointments will be needed in the next few months to keep the Board up to strength when Sir John King and Mr Dibbs depart. The Chairman is keen to strengthen the Board's experience and technical knowledge in operating their high technology role. The Department is identifying candidates.

The TUC have recently reviewed their interest in trades union membership of the Board. The Prime Minister will not want to raise this matter herself but she should be aware that Sir Arthur Knight has strong reservations about it because of the risk that it could undermine the NEB's commercial approach and generate pressure for the NEB to take on rescue cases. But he recognises that Ministers would not wish trades union membership to be ruled out or to snub the TUC. Sir Arthur expects to discuss the matter further with TUC leaders in December.

ANNEX A

CHAIRMAN

Sir Arthur Knight	Formerly Chairman Courtaulds (1975-79)

DEPUTY CHAIRMAN

Sir John King	Chairman, Babcock International

CHIEF EXECUTIVE

Ian Halliday	Formerly Finance Director of brokers Leslie and Godwin. Between 1974 and 1977 served on secondment as Deputy Director of the DoI's Industrial Development Unit.

MEMBERS

Denis Allport	Chairman, Metal Box
Sir Robert Clayton *	Technical Director, GEC
Alex Dibbs	Deputy Chairman, National Westminster Bank
Jack Emms	Chief General Manager and a Vice Chairman, Commercial Union Assurance
Sir George MacFarlane	Career in Government research and development, specialising in electronics and radar. Now a part-time member of the Post Office Board.
Dennis Stevenson	Chairman of Peterlee and Newton Aycliffe New Towns

* Robert Clayton has resigned - because of pressure of work and conflict of interest - and will not be attending.

TL.

ANNEX B

NEB DISPOSALS

(a) Sales of Shareholdings

Brown Boveri Kent (Holdings) Ltd	-	October 1980
Barrow Hepburn Group Ltd	-	October 1980
Fairey Holdings Ltd	-	June 1980
Ferranti Ltd	-	July 1980
ICL Ltd	-	December 1979
Middle East Building Services Ltd	-	August 1980
Newtown Securities Ltd	-	October 1980
Rolls Royce Ltd	-	August 1980
RR Chapman (Sub-Sea Surveys) Ltd	-	March 1980

(b) Receiverships etc

ASR Servotron Ltd	-	May 1980
Herbert Ltd	-	October 1980
J & P Engineering Ltd	-	March 1980
Mayflower Packaging Ltd	-	December 1979
Pakmet International Ltd	-	December 1979
Vicort of London Ltd	-	February 1980

SIR ARTHUR KNIGHT

THE RT.HON. MRS MARGARET THATCHER, MP

MR J.F.G. EMMS

SIR JOHN KING

MR H.D. STEVENSON

MR D. ALLPORT

SIR GEORGE MACFARLANE

MR A.H.A. DIBBS

MR W.B. WILLOTT

MR I.F. HALLIDAY

MR T.P. LANKESTER

HOUSE OF LORDS,
SW1A 0PW

VMS

With the Compliments of the
Lord Chancellor's
Private Secretary

(32511)

FROM THE PRIVATE SECRETARY

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CONFIDENTIAL

HOUSE OF LORDS,
SW1A 0PW

18th November, 1980

Mrs Catherine Bell,
Private Secretary to the
Secretary of State,
Department of Industry,
Ashdown House,
123 Victoria Street,
London, SW1E 6RB.

Dear Catherine,

Industry Bill

The Lord Chancellor has seen Nick Sanders' letter of 14th November to Michael Collon and your letter to me, of the same date, about this Bill. He has noted the Prime Minister's decision, and the amendments your Secretary of State is making to Clause 6. Subject to any comments from the Chancellor of the Duchy or the Chief Whip, he agrees that the Bill may now be introduced into the House of Commons at the beginning of the session.

I am copying this letter to Nick Sanders and the other recipients of yours.

Yours sincerely,

Alistair Shaw.

A.E. Shaw

CONFIDENTIAL

JFF

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

14 November 1980

Alistair Shaw Esq
Private Secretary to the
Lord Chancellor,
Lord Chancellor's Department
House of Lords,
LONDON
SW1A OPW

✓ MS

Dear Alistair

not in CF
D/C Pl check Secretl

I understand that following the Lord Chancellor's minute to her of 11 November the Prime Minister has decided that the provision in the Industry Bill for BL should be a nominal one of £1 million to be amended when firm decisions have been taken on BL. She has also agreed that my Secretary of State shoudl explain his intention to proceed in this way in a Parliamentary Answer when the Bill has been published. Clause 1(1) can therefore remain in the form in which it was presented to L Committee on 11 November.

2. As he confirmed in his minute to the Prime Minister of 12 November, my Secretary of State has arranged in accordance with the wishes of Legislation Committee for Clause 6 to be amended in such a way that the Bill should be certifiable as a Money Bill.

3. Since this is the only change to the draft Bill which L Committee considered on 11 November and since it is the amendment which L Committee specifically invited Mr Butler to make, my Secretary of State assumes that the Lord Chancellor will agree that it is not necessary to have further collective discussion of the draft Bill. Unless the Lord Chancellor sees any objection therefore my Secretary of State will make the necessary arrangements with the Chief Whip for the Bill to be introduced at the beginning of the new session.

4. I am sending copies of this letter to Nick Sanders, the Private Secretaries of the members and E and L Committees and to David Wright.

Yours sincerely
Catherine Bell

CATHERINE BELL
Private Secretary

CONFIDENTIAL

FROM:
THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

hd Pol

HOUSE OF LORDS,
SW1A 0PW

6th November, 1980

CONFIDENTIAL

The Right Honourable
Sir Keith Joseph, Bt., MP
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London,
SW1E 6RB.

VMS

My dear Keith:

INDUSTRY BILL: BORROWING LIMITS

Thank you for your letter of 30th October. I am grateful to you for looking again at your draft Industry Bill in the light of the strong reservations of L Committee.

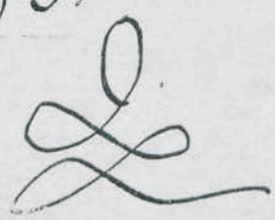
It would clearly have been preferable if agreement could have been reached on the financial limits before the Bill was introduced. Since, however, this has not been possible I note that when the Bill is published you propose to explain the significance of the provision of £1 million for British Leyland. I am sure what you now propose is an improvement and I hope it may be enough to forestall some at least of the criticism.

I note what you say about the decision not to amend the Bill in order that it might be certifiable as a money bill. When Legislation Committee look at this particular point again I think they will wish to know as precisely as possible the date by which Royal Assent must be obtained.

I understand that you will be bringing the Bill back to L Committee next week on the basis suggested in your letter and, while I cannot commit my colleagues, I see no reason to think that we shall not be able to settle the matter then.

I am sending copies of this letter to the Prime Minister and the other recipients of yours.

Yrs:



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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

4 November 1980 MS

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1H 9NA

Dear Jim.

INDUSTRY BILL

1 Thank you for your letter of 29 October about the provision in the Industry Bill to cover the funding of the industry/education activities presently being carried out by the Department of Industry. You mention the anxieties which this provision could arouse in the Careers Service and in the Manpower Services Commission. Should any extension of these activities be contemplated, I can readily assure you that there would be full and early consultation between the Department of Industry and the Department of Employment. I have given the same assurance to Mark Carlisle. I hope you will be able to allay any anxieties on this basis.

2 I am copying this letter to colleagues in E and E(EA) Committees, to Mark Carlisle, Norman St John Stevas and to Sir Robert Armstrong.

Yours.

Keith.

Ind Policy

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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SWITCHBOARD 01-212 7676

Secretary of State for Industry

The Rt Hon Lord Hailsham of
St Marylebone PVCH
Lord Chancellor
House of Lords
London SW1

30 October 1980

1. DK to see
2. PA
MS
31/10

Dear Quintin,

INDUSTRY BILL: BORROWING LIMITS

I understand from David Mitchell that members of L Committee yesterday expressed strong reservations about my proposal in L(80)52 to delete Clause 1(1) of the Industry Bill, and to deal with BL's needs by introducing an amendment at a later stage. Members of L considered that it might attract serious criticism if the Bill were introduced without one of its major provisions.

As I am sure you recognise we have difficulties in determining the amount to provide for BL until we have examined the BL Corporate Plan which has only just arrived with us. At the same time we cannot afford to delay presentation of the Bill since it provides for additional finance for both BL and Rolls Royce. You may recall that we were not able to raise the limits for the companies in the Industry Act 1980 because at the time this was passing through the Commons, the Prime Minister decided that it would be damaging to announce increases in the limits during the steel strike. We must now therefore ensure passage of the present Bill by about the end of February if we are not to risk the possibility of running out of funds for either RR or BL or possibly both.

To meet the concern of the Legislation Committee I suggest that we include provision for BL but at a notional level of £1m. We can then amend this figure at Report Stage, by which time we shall have completed our examination of BL's plan and made decisions as to further funding. I would propose to arrange a Parliamentary Question explaining the significance of the £1m provision on the day the Bill is published, both to avoid undue speculation about the BL situation and so that the House will be aware that we shall have to amend the Bill at Report stage. By adopting this course the House will examine the structure of the Bill as we intend it should be finally enacted, and only the figure for BL will have to be changed at Report Stage.

CONFIDENTIAL

It was also agreed at L Committee that David Mitchell should consider urgently whether the Bill could be converted into a Money Bill. Whilst it would be possible to amend Clause 6 in such a way as to make the Bill certifiable as a Money Bill, this could not be done without altering the underlying purpose of the Clause. Moreover it appears unlikely that the conversion into a Money Bill would save as much time as was at first thought. I understand that it would reduce the time for consideration in the Lords from about a month to 2 weeks. I do not think I can claim that the timetable is critical to two weeks, and the Lords might well accuse us of adopting a device to prevent them dealing with matters on which they might reasonably expect to comment. On this basis therefore I do not propose amending the Bill in order for it to be certifiable as a Money Bill.

I hope this meets the points raised in Legislation Committee, but I thought I ought to let you know how I propose to deal with the questions so that, if possible, we can clear the points before Legislation Committee meets next on 11 November. You will understand, I am sure, that I am hoping we can ensure that we clear this Bill at the meeting on 11 November, since its presentation will otherwise be delayed with the serious implications I have mentioned for financing both RR and BL.

I am sending copies of this letter to the Prime Minister, the Attorney General, to Norman St John Stevas, members of E Committee, George Younger, Nicholas Edwards, Mark Carlisle and to Sir Robert Armstrong. In view of the Parliamentary implications of this Bill for both Houses, I am copying this letter also to Michael Jopling and Lord Denham.

Yours ever,

Keith

ab

Ind Pol

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

GTN Code 213

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

R. 31/10

29 October 1980

Dear Keith

INDUSTRY BILL

Mark Carlisle copied to me his letter to you of 24 October. The anxieties he mentions in the education world will be mirrored by anxieties in the Careers Service and the Manpower Services Commission. Like Mark, I would not wish to raise any objection on the draft Bill, but I echo his request for an assurance of full and early consultation before any extension of support for industry/education activities is contemplated.

I am copying this letter to the other recipients of previous correspondence.

Yours
Jim

JFF

IND. POL

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

27 October 1980

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

MAP 28/X

Dear Mike

COURTAULDS : COMPENSATION FOR MR MORRIS, EX-NEB DEPUTY CHAIRMAN

Thank you for your letter of 20 October reporting the Prime Minister's comments on my Secretary of State's minute of 6 October and the Lord President of the Council's minute of 13 October, about Mr Morris. I have also seen a copy of Jim Buckley's letter to you of 21 October.

2. The Prime Minister commented that there appeared to be a discrepancy in the account of the background to the case given in these two minutes. The accounts are in fact consistent. When Mr Morris was appointed to the NEB, the Department assumed that he would be returning to serve with Courtaulds at the end of his NEB service. However, it subsequently emerged that Courtaulds had come to an arrangement with Mr Morris that he should terminate his service with Courtaulds on the day his four year contract with the NEB expired. It is therefore true to say that Courtaulds did not believe he would return to their service.

3. I hope this sets out the background clearly. My Secretary of State accepts that this does not affect the merits of the case. He agrees reluctantly therefore that he should now write to the Chairman of Courtaulds confirming that since Mr Morris resigned voluntarily from public service there can be no question of compensation being paid.

4. I am sending a copy of this letter to Jim Buckley in the Lord President's Office.

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

CONFIDENTIAL

Ind Pol

VMS

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

24 October 1980

Dear Keith,

INDUSTRY BILL

Not copied to me

I wrote to you on 7 October expressing reservations about your proposal to provide in this Bill specific legislative cover for grants from your Department to cover industry/education activities.

The question has been further discussed between our officials. Our understanding is that your Department's concern is simply to regularise expenditure of the kind already taking place and that there is no intention of extending DOI activities into new areas.

On that basis I certainly would not wish to raise any objection when the draft Bill is taken by Legislation Committee on 29 October. There will be anxieties in the education world, however, and it will help me to allay them if you could assure me that your Department will consult with mine, fully and in good time, before any extension of support for industry/education activities, either in nature or in scale, is contemplated.

I am copying this to all the recipients of your original letter of 29 September to Geoffrey Howe.

Yours ever

Mark.

MARK CARLISLE

cc D/T HS

10 DOWNING STREET

From the Private Secretary

23 October 1980

Thank you for your further letter of 21 October about the compensation issue in the case of Mr. Morris.

In the light of the additional information you have provided, the Prime Minister has confirmed her view that there can be no question of the Government making an ex gratia payment to Courtaulds in respect of Mr. Morris.

I am sending a copy of this letter to Ian Ellison (Department of Industry).

M. A. PATTISON

Jim Buckley, Esq.,
Lord President's Office.

SN.

1.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

21 October 1980

Mike Pattison Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Prime Minister
I think this confirms that there can be no question of an ex-gratia payment to Morris. Agree?
MAP 22/X

Yes mt.

Dear Mike,

COURTAULDS - COMPENSATION FOR MR MORRIS, EX-NEB DEPUTY CHAIRMAN

We had a word about your note of 20 October to Ian Ellison.

The statement in the Lord President's minute of 13 October that when Morris was recruited the Department of Industry were under the impression that he would eventually be returning to the company is based on information given to us in March of this year by the Department of Industry. It was after his recruitment that Morris told the Department that it had been agreed with Courtaulds that he would not be returning to their service. It was therefore Courtaulds and Morris who changed the original expectation and this they did without consulting the Department.

This clarification can I think only add emphasis to the Prime Minister's view which you set out in your minute.

I am sending a copy of this letter to Ian Ellison in the Secretary of State for Industry's Office.

Yours sincerely,

Jim Buckley.

J BUCKLEY

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

20 October 1980

Dear Ian

Courtaulds: Compensation for Mr. Morris, ex-NEB Deputy Chairman

The Prime Minister has seen the Secretary of State for Industry's minute of 6 October, and the Lord President of the Council's minute of 13 October, about Mr. Morris.

The Prime Minister has noted that there is a discrepancy in the accounts of the background to the case offered by your Secretary of State and by the Lord President. The Lord President records that, when Morris was recruited, the Department of Industry were under the impression that he would eventually be returning to the company. Your Secretary of State notes that the continued contractual arrangement with Courtaulds was due to terminate at the end of his contract with the NEB, and that Courtaulds believed therefore that he would not return to their service. In the absence of agreement on the facts of the position at the time, the Prime Minister is left in some difficulty in being asked to make a ruling.

Mrs Thatcher has, however, commented that the person who is culpable is Mr. Morris. She believes firmly that people in his position must be presumed to know the consequences of their own actions. Either Mr. Morris did not consider them, or disregarded them. In her view, therefore, the Chairman of Courtaulds should be complaining to Mr. Morris and not to the Government. Against this background, the Prime Minister would be most reluctant to authorise any payment, even if it were confirmed that your Secretary of State's version of the original understanding is the accurate one.

I am sending a copy of this letter to Jim Buckley in the Lord President's Office.

Yours ever

Mike Pattison

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

1.

1. MR. WHITMORE

2. PRIME MINISTER

I agree that we should proceed on Mr Pattison's proposal. TGW 17x.

There is a row in progress about compensation for Mr. Morris, the ex-Deputy Chairman of NEB.

Keith Joseph (Flag A) believes that the Government should make an ex gratia payment to Courtaulds of 50 per cent of the compensation they have felt obliged to make to Morris, who remained on secondment when he went to NEB. Lord Soames (Flag B) argues both that this is wrong in principle and that it would leave room for allegations that a payment to Mr. Morris had been "laundered" through Courtaulds.

This comes to you for ruling in a most unsatisfactory form. There is a disagreement over the facts. Lord Soames believes that, when Morris was recruited, the Department of Industry were left with the impression that he would eventually be returning to the Company. Sir Keith Joseph records that the arrangements for his transfer to NEB included leaving him notionally on the Courtaulds' payroll in order to enable him to continue within the Courtaulds' pension scheme, though this arrangement was due to terminate at the end of his contract with the NEB. The problem that has now arisen is a consequence of the mass resignation of the NEB Board. Courtaulds have found it impossible to reabsorb Mr. Morris and they have, therefore, had to pay him substantial compensation for the remaining period of his contract, which he was in practice expected to serve out with NEB. The amount is £50,000. Sir Keith would like to meet £25,000 of this.

I do not believe that you can rule until there is agreement about the understandings at the time of his appointment. Even if it is established that Courtaulds had no expectation of Morris returning to them, I think that there is considerable substance in Lord Soames' objections to a payment which will in effect find its way to Mr. Morris.

/Should we ask

Should we ask the two Ministers to reach an agreed view of the facts of the original arrangement with Courtaulds, but make it clear that you will be most reluctant to authorise any payment?

MAP

16 October 1980

B

PRIME MINISTER

COURTAULDS - COMPENSATION FOR MR MORRIS, EX-NEB DEPUTY CHAIRMAN

I am afraid I see very strong objections to the proposal in Keith Joseph's minute of 6 October.

2. If a man chooses to resign from office he must accept the financial and other consequences. If he is in the public service, he cannot expect to be compensated for his losses from public funds. Your Parliamentary Answer of 13 May laid this down unequivocally. We took a firm line on it with Lord Goodman over Sir Leslie Murphy. It was relevant when Sir William Barlow resigned from the Post Office. It came up again only this week in the case of Sir Francis Tombs. There will be others in future. I am sure the principle is right and I would not wish to see it weakened.

3. The former Deputy Chairman of the NEB resigned voluntarily with his colleagues as a protest against Government policy. He has, however, escaped the full financial consequences by exploiting a private arrangement with Courtaulds, under which they felt legally bound to pay him £50,000. The Government was not a party to the arrangement. Indeed, when Morris was recruited, the Department of Industry were under the impression that he would eventually be returning to the company. Nor was the Department consulted before the compensation payment was made.

4. In effect, we are being asked to indemnify Courtaulds against the consequences of their independent decision not to reabsorb Mr Morris into the Company. We should be financing a payment over which neither we nor the NEB had any control and which was triggered off by a purely voluntary resignation. That would not be easy to defend in public.

5. There is a lively Parliamentary interest in the whole subject of compensation and in April the Press reported this particular case in accurate detail (cutting attached). I agree with Sir Ian Bancroft that it could be alleged - however unfairly - that a payment to Mr Morris had been "laundered" through Courtaulds. We could not deny that £25,000 of public money had found its way to him; and no simple public explanation could be offered. The fact is that the Government was in no way responsible for Morris's resignation or for Courtaulds' having to compensate him.

6. I recognise that Courtaulds were helpful at the time of Morris's appointment. And I can fully understand Keith Joseph's wish to assist the Company if possible. We do not want to lose their goodwill or that of other companies. But the principle at stake here is important and even an indirect and partial payment would be a bad precedent. I find it hard to accept that we have a moral obligation to Courtaulds, and I think we should say firmly that we cannot make this payment without undermining an important principle. I hope that Keith Joseph could put it to Christopher Hogg in this way, while making it clear that we shall not forget the help given by the Company in a very difficult situation.

7. I am sending a copy of this minute to Keith Joseph.

S.

SOAMES

13 October 1980

Ex-NEB executive receives £50,000

By Hazel Duffy,
Industrial Correspondent

COMPENSATION for the two full-time members of the former Board of the National Enterprise Board, which resigned in protest at Government policy last November, has been sought and in one case has now been agreed.

Mr. Richard Morris, aged 54, formerly deputy director of the NEB, has settled for compensation of about £50,000 from Courtaulds, his former employers, but Sir Leslie Murphy, former chairman of the NEB is still seeking compensation.

Mr. Morris was on a four-year secondment from Courtaulds. After the NEB Board resignations he did not return to Courtaulds, apparently by mutual agreement between himself and his former employers. He was earning £35,000 a year at the NEB and his contract was not due to expire until April, 1982.

Although the settlement is with Courtaulds, it is expected that the company will try to get some of the money reimbursed through the NEB. The actual amount of Mr. Morris's compensation will appear in the forthcoming report and accounts of the NEB. He is a part-time director of British Nuclear Fuels but has not had a full-time job since leaving the NEB.

Sir Leslie Murphy, former chairman, is still seeking compensation but in his case it is through the Industry Department, as he was appointed by the Secretary of State for Industry. He says he is not legally entitled to compensation, since he resigned from the Board. But he was told by Industry Department officials after his resignation that the matter would be investigated.

Sir Leslie, who will be 65 this year, says he has made no personal representations to the Government about any payment. The matter is in the hands of a solicitor, but Sir Leslie denies that there is any dispute over the case. It would be "entirely at the discretion of the Department" to make a payment, says Sir Leslie, whose three-year contract was due to expire on July 31 this year.

He was earning nearly £42,000 a year when he was at the NEB, which would have been increased to £48,500 from the beginning of this month.

Sir Leslie and Mr. Morris were the only full-time members of the NEB Board. As part-time directors, the others received only token payment. The whole Board resigned over the Government's handling of the Rolls-Royce affair, which ended with Rolls-Royce being transferred back to the Industry Department.

A

The person who is culpable is Mr Morris. People in his position must be presumed to know the consequences of their own actions. Little Mr M. did not consider them, or disregarded them. Mr Hogg's complaint should be to Mr M. not to us. MT

PRIME MINISTER

COURTAULDS - COMPENSATION FOR MR MORRIS, EX NEB DEPUTY CHAIRMAN

Christopher Hogg, the Chairman of Courtaulds, recently came to see me about the compensation Courtaulds have had to pay Mr Richard Morris who was the then Deputy Chairman of the NEB and who resigned with the rest of the NEB Board last November. Mr Morris and Sir Leslie Murphy were the only full time members of the Board.

2 Mr Morris was appointed by my predecessor at a time when he was a full time member of the Courtaulds Board. The arrangements reached for his transfer to the NEB included leaving Mr Morris notionally on the Courtaulds' payroll in order to enable him to continue within the Courtaulds pension scheme, though this arrangement was due to terminate at the end of his contract with the NEB. Courtaulds believed therefore that he would not return to their service nor had they any appointment to which he might return.

3 Mr Morris' resignation from the NEB left Courtaulds with an outstanding liability to him since his contract had not yet expired - indeed had 2 years 5 months to run. Courtaulds were legally liable to pay compensation and have done so to the tune of £50,000. Mr Hogg came to see me because, while he recognises that the Government has no legal liability to Courtaulds, he believes, quite strongly, that there is a moral responsibility to the company and its shareholders, who were innocent bystanders and

/have ...

have suffered a financial loss.

4 You may recall that there was some Parliamentary interest in the question of compensation for Sir Leslie Murphy and Mr Morris, and I understand that when you answered a Question on this subject (O.R Col 220 28.4.80) you minuted the papers that no compensation should be paid. We have stood on this position.

5 I have great respect for Mr Hogg and he put the company's case for recompense in a way which indicated his clear understanding of the principle that we cannot agree to compensation for someone who resigns from the public service voluntarily. He had earlier been to see Sir Ian Bancroft and so was in no doubt on the importance of this principle to us.

6 I gave him no reason to believe that we could breach this principle and he accepted this. Nevertheless, I do feel there is a distinction between our paying compensation to Mr Morris, and relieving the company from at least some part of the loss which they have suffered, largely because they entered into arrangements with our predecessors which were intended to facilitate the transfer of Mr Morris to a public appointment. There is no question of bad faith on anyone's part but I believe there is a case for making some payment to the company - I suggest £25,000 or 50% of their loss. I believe that if we do not pay the full amount we shall have preserved the essence of the principle and any payment should be made as an extra statutory recognition of the extraordinary loss the company has suffered.

/I ...

I recognise, however, that you will also want the advice of the Lord President since I know that the Civil Service Department have felt unable to agree to such a payment. I am therefore copying this minute to the Lord President.

KJ

K J
6 October 1980

Department of Industry
Ashdown House
123 Victoria Street

Thursday 24 April 1980

(Answered by the Prime Minister on 24 April)

UNSTARRED NO. 137 Mr. Jock Bruce-Gardyne: To ask the Prime Minister, what consideration she has given to requests from former members of the National Enterprise Board, or their current employers, for compensation for loss of emoluments from public funds following their voluntary resignation from this Board; and what conclusions she has reached.

My right hon. Friend and hon. Friends have considered one such request; no payment has been authorised in respect of it. Another case is still under consideration.

I think we will not accede to this request. The person concerned resigned voluntarily

MT

CONFIDENTIAL

BACKGROUND NOTE

Mr Bruce-Gardyne's question relates to the resignation, on 21 November last, of Sir Leslie Murphy and Mr Richard Morris from their posts as, respectively, Chairman and Deputy Chairman of the NEB. (There have been other resignations from the NEB - the rest of the Board in November last; Sir Michael Edwardes; Lord Ryder; Mr Alistair Frame; Mr Harry Urwin - but none of these has involved questions of compensation).

Lord Goodman wrote on 14 December last to the Permanent Secretary of the Department of Industry, seeking compensation for Sir Leslie Murphy. After exchanges at official level the Secretary of State wrote to the Minister of State, Civil Service Department, recommending modest compensation, but Mr Channon felt unable to agree. Lord Goodman has been told that this is the Government's conclusion, and has challenged it, but our impression is that Sir Leslie will not take it further.

Mr Morris's case is rather different. He has not himself sought compensation from the Department, but we considered the merits of his case superior to those of Sir Leslie Murphy, and (in parallel with pursuing Sir Leslie's case) invited the Civil Service Department to agree that compensation would be appropriate. Sir Ian Bancroft rejected this proposal but in the meanwhile Courtaulds (Mr Morris's former employers) paid him £55,000. The background to this is that Mr Morris was seconded from Courtaulds to the NEB for four years on the understanding (agreed by the Civil Service Department) that he could remain in Courtaulds' pension scheme and that during this period the NEB would pay the employers' pension contribution of £16,000 p.a. What was not known to us, however, was that Courtaulds were not prepared to re-employ Mr Morris when his secondment to the NEB was over. So when it suddenly ended, because of his resignation, Courtaulds found they were legally committed (by a contract which we had never seen) to compensate Mr Morris for the balance of the four years. (This payment was reported in the Press and is presumably reflected in the terms of Mr Bruce-Gardyne's question). Courtaulds have no legal claim on the Department to reimburse them, although the possibility of an ex gratia payment has not yet been ruled out.

In replying to the question there is a temptation to plead confidentiality, but the matter has already been reported in the Press and Mr Bruce-Gardyne has already put down one question about it which was unforthcoming (copy attached). The recommended draft reply (which has been agreed with the Civil Service Department) therefore goes a little further.

HANSARD WRITTEN ANSWERS 17th APRIL 1980

COLUMN 690

INDUSTRY

National Enterprise Board

Mr. Bruce-Gardyne asked the Secretary of State for Industry what contractual provision for compensation payments in the event of voluntary resignation is made by the National Enterprise Board in respect of its present and former employees; and if he will ensure that no commitments are entered into by the National Enterprise Board as a charge on public funds in excess of any such contractual commitments.

COLUMN 691

Mr. Michael Marshall: Compensation payments for employees of the board are a matter for the board. Board members are not employees of the board: any compensation payments to them would be a matter for my right hon. Friends the Prime Minister and the Secretary of State.

FINANCIAL TIMES — MONDAY 14 APRIL

Ex-NEB executive receives £50,000

By Hazel Duffy, Industrial Correspondent

COMPENSATION for the two full-time members of the former Board of the National Enterprise Board, which resigned in protest at Government policy last November, has been sought and in one case has now been agreed.

Mr. Richard Morris, aged 54, formerly deputy director of the NEB, has settled for compensation of about £50,000 from Courtaulds, his former employers, but Sir Leslie Murphy, former chairman of the NEB is still seeking compensation.

Mr. Morris was on a four-year secondment from Courtaulds. After the NEB Board resignations he did not return to Courtaulds, apparently by mutual agreement between himself and his former employers. He was earning £35,000 a year at the NEB and his contract was not due to expire until April, 1982.

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Sir Leslie Murphy, former chairman, is still seeking compensation but in his case it is through the Industry Department, as he was appointed by the Secretary of State for Industry. He says he is not legally entitled to compensation, since he resigned from the Board. But he was told by Industry Department officials after his resignation that the matter would be investigated.

Sir Leslie, who will be 65 this year, says he has made no personal representations to the Government about any payment. The matter is in the hands of a solicitor, but Sir Leslie denies that there is any dispute over the case. It would be "entirely at the discretion of the Department" to make a payment, says Sir Leslie, whose three-year contract was due to expire on July 31 this year.

He was earning nearly £42,000 a year when he was at the NEB, which would have been increased to £48,500 from the beginning of this month.

Sir Leslie and Mr. Morris were the only full-time members of the NEB Board. As part-time directors, the others received only token payment. The whole Board resigned over the Governments handling of the Rolls-Royce affair, which ended with Rolls-Royce being transferred back to the Industry Department.

2pps

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

PL 6/10

6 October 1980

Dear Keith,

INDUSTRY BILL: FINANCE FOR FINNISTON CHARTERED BODY AND INDUSTRY/EDUCATION ACTIVITIES

In your letter of 29 September to Geoffrey Howe you asked for agreement to include in the next Industry Bill a clause to cover funding for the new Finniston Chartered body and for various other educational activities carried out for industrial purposes.

We agree that you need specific legislative cover for the continuing but modest educational/industrial expenditures which in the past have been covered under the Appropriation Act. But the main policy issue which we did not discuss at E in August is whether powers should be taken to permit the Government to provide grants and loans for the Finniston body. You make no mention of savings to offset any additional expenditure for this purpose, but I presume that if you had to make any payments these would be financed within your programme. On this assumption and in view of our announced commitment to an Engineering Authority, I would not wish to make an issue of your request for new powers if other members of E are content.

There is an argument that your proposals require two separate clauses on the grounds that grants or loans to finance the Chartered body and the educational activities are separate purposes. On this argument the "Finniston purpose" would be dealt with in a separate clause, and should in my view be time-limited to a maximum of 3 years.

The alternative is a single clause, if it could be drafted in such a way as to give general authority for making grants and loans for educational and industrial purposes as well as for "Finniston administration". One advantage would be that there would be no need to make any specific reference to the Engineering Authority.

This might make it easier to avoid a commitment to make any payments at all for its administrative costs. But you would have to make it clear to Parliament that if the power was to be used at all for the purpose of supporting the Authority's initial administrative costs, this would depend on the private sector's failure to provide funds, and that public funds would only be used as a substitute for private finance for a maximum of 3 years. Like you I hope that any public finance can be avoided.

I am content for you to proceed along the lines of a single general clause, if colleagues in E agree.

I am copying this letter to colleagues in E and E(EA) Committees, to Mark Carlisle, Norman St.John Stevas and to Sir Robert Armstrong.

John Biffen

JOHN BIFFEN

CCAD

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

2 October 1980

Dear Keith

You wrote to Geoffrey Howe on 29 September seeking agreement to the addition of a further clause to next Session's Industry Bill to cover funding for the new Finniston chartered body and other industry/education activities of the Department of Industry. Provided that our colleagues are content to give you policy approval for these new proposals, I am willing to give drafting authority on the understanding that the addition will not delay the preparation of the Bill, which we still expect to be ready for introduction at the beginning of the Session.

The Bill as originally envisaged was to be a 'very short' one, and I should perhaps sound a warning that I should find it difficult to agree to any further extension of its scope.

I am copying this letter to the recipients of yours.

Yours ever
MC.

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
SW1E 6RB

Ind Pol

cc A. Duguid

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

29. September 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1P 3HE

Dear Geoffrey -

INDUSTRY BILL: FINANCE FOR FINNISTON CHARTERED BODY AND INDUSTRY/EDUCATION ACTIVITIES

1 In earlier correspondence we have agreed to the introduction of an Industry Bill early in the next session to provide for the increased financial limits which will be required for BL and Rolls Royce. In this letter I seek colleagues' agreement to the inclusion of a clause in the Bill to cover funding for the new Finniston chartered body and for the other industry/education activities carried out by the Department of Industry.

2 As I explained in my paper to E Committee I intend the Government's involvement in setting up the new chartered body to be restricted to guaranteeing loans from the private sector. I have started consultations on that basis and have made it clear that the Government will restrict its commitment to the minimum necessary, both because of expenditure constraints and my wish that the body should be independent of Government involvement. However, I cannot be certain that the chartered body will be entirely self-financing over the initial period and I do not think the Government could stand by and see the new body fail simply because we were not prepared to support its initial funding. I therefore think that, despite the pressing expenditure constraints under which you are operating, we shall have to make contingency arrangements for possible direct Government funding. I envisage that, if needed, this funding would be limited to topping up any amount by which subscriptions (and loans raised under guarantees) fell short of the chartered body's necessary expenditure during the initial three year period during which the Government will nominate the membership of the body. The maximum sum involved would be £2-3 million but it is my firm intention that no expenditure would actually be incurred.

3 I seek agreement therefore to instruct Parliamentary Counsel to draft a clause which gives the Government power to make grants to the new chartered body, as well as loans or guarantees for private sector loans. The legislation itself would not commit us to any particular type of finance.

/4 ...

4 Since we shall be legislating in the general area I think we should also provide specific cover for the grants etc. which we provide for industry /education activities more generally. These at present depend on the authority of the Appropriation Act and we will be open to criticism by the PAC if we failed to take this opportunity to legislate. I hope the funding of our industry/education activities can be covered in the same clause. Indeed some of the assistance we now give for pump priming course support might be given in future through the new chartered body.

5 Instructions for Parliamentary Counsel are needed urgently if we are not to delay the Industry Bill itself and I should be grateful for your and colleagues' agreement to proceed in this way by 5 October.

6 I am copying this letter to colleagues in E and E(EA) Committees, to Mark Carlisle, Norman St John Stevas and to Sir Robert Armstrong.

Yours ever,

Keith

Ind Pol

FROM THE MINISTER FOR INDUSTRY AND EDUCATION

SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

✓ MS

The Rt Hon Sir Geoffrey Howe PQ MP
Chancellor of the Exchequer
Treasury Chambers
LONDON
SW1P 3AG

18 August 1980

INDUSTRY BILL

In George Younger's absence I am writing in response to Keith Joseph's letter of 6 August setting out his proposals for inclusion in a further Industry Bill with a view to arranging for it to be drafted in time to be introduced at the beginning of the next session.

I certainly agree with Keith Joseph that if the financial limit for Rolls Royce, BL and the NEB's remaining investments has to be increased it would be preferable to move straight to a figure of £4,750m as he suggests rather than risk having to seek further legislation later in this Parliament. I would be particularly opposed to approaching the new limit by stages subject to affirmative order. The Scottish Development Agency's financial limit stands at £500m which should be sufficient to cover expenditure until about 1984. Had the limits for the NEB and the WDA not required to be raised we would not have been seeking to increase the SDA's limit at this time but we think we should take advantage of the opportunity presented by the next Industry Bill to raise the Agency's limit to £700m and thus provide a cushion against any possibility of the limit being reached in 1984/85 when the legislative outlook might be less certain.

I am also glad to note that Keith Joseph has accepted George Younger's suggestion that we should use the next Industry Bill to take statutory powers to write off irretrievable losses. This will enable us to overcome an immediate difficulty with the SDA's inability to service and repay its borrowing from the National Loans Fund which is mainly attributable to its losses in the Stonefield Vehicle Company. It will also remove the deadweight of lost public dividend capital, again much of it due to Stonefield, whose existence, as in the cases of the NEB and the WDA, makes it impossible to set a realistic or attainable financial duty for these bodies.

I am sending copies of this letter to the Prime Minister, Norman St John Stevas, members of E Committee, Nicholas Edwards and Sir Robert Armstrong.

ALEX FLETCHER

Ind Pol

MJS

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Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

18 August 1980

Dear Geoffrey.

I have seen Keith Joseph's letter to you of 6 August, proposing the introduction of a new Industry Bill at the start of the next session. I support the proposal and I confirm that I will wish to use the Bill to take powers to increase the financial limits of the Welsh Development Agency and the Development Board for Rural Wales.

The Industry Act 1980 deleted the provision to increase by order the financial limit of the WDA from £250 million to £400 million. It became apparent while the Act was at Committee stage early in the New Year that the current financial limit of £250 million will be insufficient to see the Agency through the life of this Parliament, particularly in view of the additional sums agreed for steel remedials at Shotton and in South Wales. For similar presentational reasons to those outlined in Keith's letter it appeared inappropriate to take action in January to increase the financial limit. I now propose, however, that the limit should be raised and, in order to avoid further changes during this Parliament, I estimate that the new limit should be set at £450 million. Similarly, I propose that the current financial limit of £40 million for the DBRW should be increased to £100 million.

Keith also proposes, as suggested by George Younger, that the Bill should be used to take statutory powers to write off irretrievable losses of NLF and public dividend capital finance. It will be desirable to take such write-off powers in respect of the WDA, whose losses are, as you know, principally attributable to the investment in Leiners.

I am sending copies of this letter to the Prime Minister, to Norman St John Stevas, members of E Committee, George Younger and to Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

Ind Pol

✓ MS

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 August 1980

The Rt. Hon. Sir Keith Joseph, MP.,
Secretary of State for Industry

Dear Keith

INDUSTRY BILL

Thank you for your letter of 6 August in which you sought policy clearance for the introduction of a new Industry Bill immediately after the Recess.

I am content for you to introduce a Bill on the lines you propose, including provisions for raising the financial limits of the SDA and WDA if George Younger and Nicholas Edwards so desire. I am also content to leave our officials to settle the details of the write-off provisions. I would however like to reserve my position on the size of the new financial limit. Perhaps our officials could discuss this further and report back before the Bill needs to be introduced.

I am sending copies of this letter to the recipients of yours.

Yours

GEOFFREY HOWE

Ind Pol.

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

7 August 1980

✓ MS

Dear Keith

Thank you for sending me a copy of your letter of 6 August to the Chancellor of the Exchequer about your proposed Bill to increase the aggregate financial limit for the Secretary of State and the National Enterprise Board. As you know, this Bill was accepted as essential for next session by the Cabinet and, subject to policy approval being given by E Committee, I readily give my authority for the employment of Parliamentary Counsel on the drafting of the Bill.

I am copying this letter to the recipients of yours, and to First Parliamentary Counsel.

Ever yours
NC

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
SW1

JU

copies to
PS/Ministers
PS/Secretary
Mr Bullock
Mr Manzie
Mr Croft
Mr Farrow
MrMountfield
Mr Treadgold
Mr Leeming
Mr McElheran
MR Loughrewl (papers)

Secretary of State for Indust

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

6 August 1980

The Rt Hon Sir Geoffrey Howe MP QC
Chancellor of the Exchequer
HM Treasury
Parliament Street
London W1

MBPR yet

TL 7/8

Dear Geoffrey.

at flap

You will recall that in January we considered the possibility of introducing a new clause in the then Industry Bill to increase the aggregate financial limit for the Secretary of State and the NEB. We concluded that this would be undesirable because of the implications for the steel strike. With the Prime Minister's approval, we agreed instead that a further Bill should be introduced in the autumn.

2 I am now writing to seek colleagues' approval to introduce a new Industry Bill for this purpose as a matter of urgency at the start of the next session. When we looked at the likely demands on the existing limit of £3,000 million in January, I thought that this would not suffice much beyond the turn of the year. This remains the position and I very much hope, therefore, that colleagues can agree that the highest priority should be given to the early passage of the Bill.

3 Turning to the figures, in January I proposed that the new limit should be set at £4,000 million, reflecting our best estimate at that time of likely needs over the next five years. However, I emphasised that the limit was a matter of considerable uncertainty, and in the light of more up to date information now available for BL and Rolls Royce, I judge that it is necessary to set the limit at £4750 million if we are to avoid further changes during this Parliament. Of this, £4,000 million would be equally divided between Rolls Royce and BL, with the portion reserved for the NEB's other investments remaining at £750 million as in the 1980 Industry Act.

4 A major part of the total will reflect private sector borrowing by Rolls Royce and BL and there is, therefore, no implication that there would be public expenditure of this amount. However, I recognise that an increase on this scale

/could ...

could give rise to comment from our supporters as well as from the Opposition and I have accordingly considered alternative ways of implementing the increase which might be presentationally more attractive. One possibility would be to approach the new limit by stages subject to affirmative order. However, this was the procedure adopted by our predecessors which we criticised strongly during the passage of the 1980 Act. Moreover, this approach would not disguise the level of the eventual limit. As an alternative I have also considered whether we should set a lower figure, e.g £4,000 million, which could be increased if necessary by further legislation later in this Parliament. Again, however, I can see no advantage in putting off the decision in this way, especially as this would involve the passage of a sensitive piece of legislation in the run up to the next general election.

5 I understand that George Younger and Nicholas Edwards wish to take advantage of the opportunity presented by the Bill to increase the financial limits of the Scottish and Welsh Development Agencies and of the Development Board for Rural Wales, and that they will be putting proposals to you within the next few days. I am content that the Industry Bill should be the vehicle for this, following the precedents of the 1979 and 1980 Industry Acts.

6 George Younger has also suggested to me that the Bill could be used to take statutory powers to enable the SDA to write off NLF and public dividend capital finance that has been lost irretrievably in investments made under the previous administration. The NEB has a problem which is broadly similar in that it has incurred, or will incur, substantial losses on Herberts, Cambridge Instruments, British Tanners and Sinclair Radionics which will be only partially offset by the rceipts (net of tax) from the disposals of its major profitable shareholdings. I understand, too, that the WDA is in a similar position.

7 In these circumstances I would like to propose that we should take statutory powers to write off irretrievable losses in the way that George Younger has suggested. It would then be possible for us to set realistic financial duties for the NEB and the Agencies which will establish a proper commercial framework within which their performance can be judged. Otherwise I can see no prospect of a statutory financial duty being formulated that could cope with the existing dead weight of lost capital. There are a number of technical problems which need to be settled but I suggest that we should leave these to officials to resolve. Meanwhile I would be grateful for agreement in principle to proceed in the way that I have proposed.

/8 ...

8 In view of the urgency of introducing the Bill right at the beginning of the next session it would be helpful to have your views, and those of colleagues, as soon as possible. Subject to comments on the points of principle, I would also be grateful for Norman St John Stevas' approval for employing Parliamentary Counsel on drafting the Bill as soon as the outstanding technical problems have been settled.

9 I am sending copies of this letter to the Prime Minister, to Norman St John Stevas, members of E Committee, George Younger, Nicholas Edwards and to Sir Robert Armstrong.

Yours,

Ken

RESTRICTED

Ind Pol.

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

I K C Ellison Esq
Private Secretary to
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

29 July 1980

Dear Ian,

NEB RELATIONS WITH THE TUC

You copied to me your letter of 25 July to Tim Lankester about the TUC's informal approach to Sir Arthur Knight.

As your Secretary of State knows, Mr Prior believes that there is much to be gained by again having representatives of the TUC on the NEB when it is possible to do so. He is not aware of the grounds for Sir Arthur's concerns that TUC representation might inhibit the participation of private sector companies in certain ventures or that such inhibitions have been evident in the past.

Sir Arthur's views will have to be considered carefully, but it is clearly important that he does not appear in any way to rule out the return of TUC representatives to the NEB in his informal discussions with the TUC. You might think it right to register this point with his private secretary.

I am copying this letter to Tim Lankester.

Yours ever
Richard Dykes

RICHARD DYKES
Principal Private Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

25 July 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

NEB RELATIONS WITH THE TUC

Sir Arthur Knight's private secretary has rung me at Sir Arthur's request to say that Mr Len Murray of the TUC has contacted Sir Arthur to invite him to a private lunch at Congress House. The lunch is likely to be in mid August and the TUC is likely to be represented by Mr Murray, Mr Basnett and Mr Lee.

2 Sir Arthur Knight wished to stress that the invitation was a private one but he thought that my Secretary of State ought to know that it had been issued. Sir Arthur thinks it possible that the TUC may broach the idea of the TUC again being represented on the NEB. Sir Arthur understands that the Government has reserved places on the NEB for TUC representatives, but he himself has reservations about the idea; he thinks that the presence of TUC representatives might inhibit private sector companies from participating in such ventures as the recently announced biotechnology company.

3 I am copying this letter to Richard Dykes (Employment).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

JH

Ind PS7 - PA

MS

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PS/ Secretary of State for Industry

1 July 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Nick

FERRANTI: STATEMENT BY THE SECRETARY OF STATE FOR INDUSTRY, 1 JULY 1980

... I enclose as requested a copy of the draft statement which my Secretary of State will be making in the Commons at 3.30pm this afternoon. I am also sending a copy of this letter and enclosure to Brian Norbury at Defence, Godfrey Robson at the Scottish Office, Petra Laidlaw in the Chancellor of the Duchy's Office, Stuart Hampson at Trade, and Murdo McLean in the Chief Whip's Office.

Yours sincerely

Catherine Bell

CATHERINE BELL
Private Secretary

DRAFT

FERRANTI: STATEMENT BY THE SECRETARY OF STATE

With permission, Mr Speaker, I will make a statement about the disposal of the NEB's shareholding in Ferranti. I undertook in our recent debate to study what was said and to report to the House.

The overwhelming view of the House was that if the NEB's shares were to be sold, they should be sold in such a way as to safeguard, at least temporarily, Ferranti's independence.

I had told the House that a placing of shares to achieve such a purpose would tend to be below market price, so that the taxpayer would probably get less than he would if bids for the company were considered. Moreover, to place the shares without conditions might not meet the purpose, since a bidder could offer an attractive price. In that case the taxpayer would not have the benefit from the higher price, and the independence of the company, which would have been the purpose of the exercise, would not have been preserved.

I pointed out that conditions could be imposed, but that they would further lower the price. I explained that a placing of shares, with conditions, with a group of institutions, would not provide a guarantee of independence.

The Board of the NEB told me that they were willing, as a matter of commercial judgement, to place the shares with institutions: indeed, they commended this course to me. But they thought that to impose conditions on the disposal was not a normal commercial action and accordingly they asked me to give them a direction. This I have done. Under powers

/in ...

in the Industry Act 1975 I directed the NEB yesterday to sell their shares on terms under which each purchaser agrees not to dispose of any interest in them for 2 years without the consent of the NEB. I have also directed the NEB to retain 4% of their holding for Ferranti's employees under an appropriate scheme. A copy of this direction has been laid before Parliament.

The NEB hopes to place the shares at £5.30 each. This compares with £5.97, the price immediately prior to the suspension of the shares yesterday morning - a discount of about 11%.

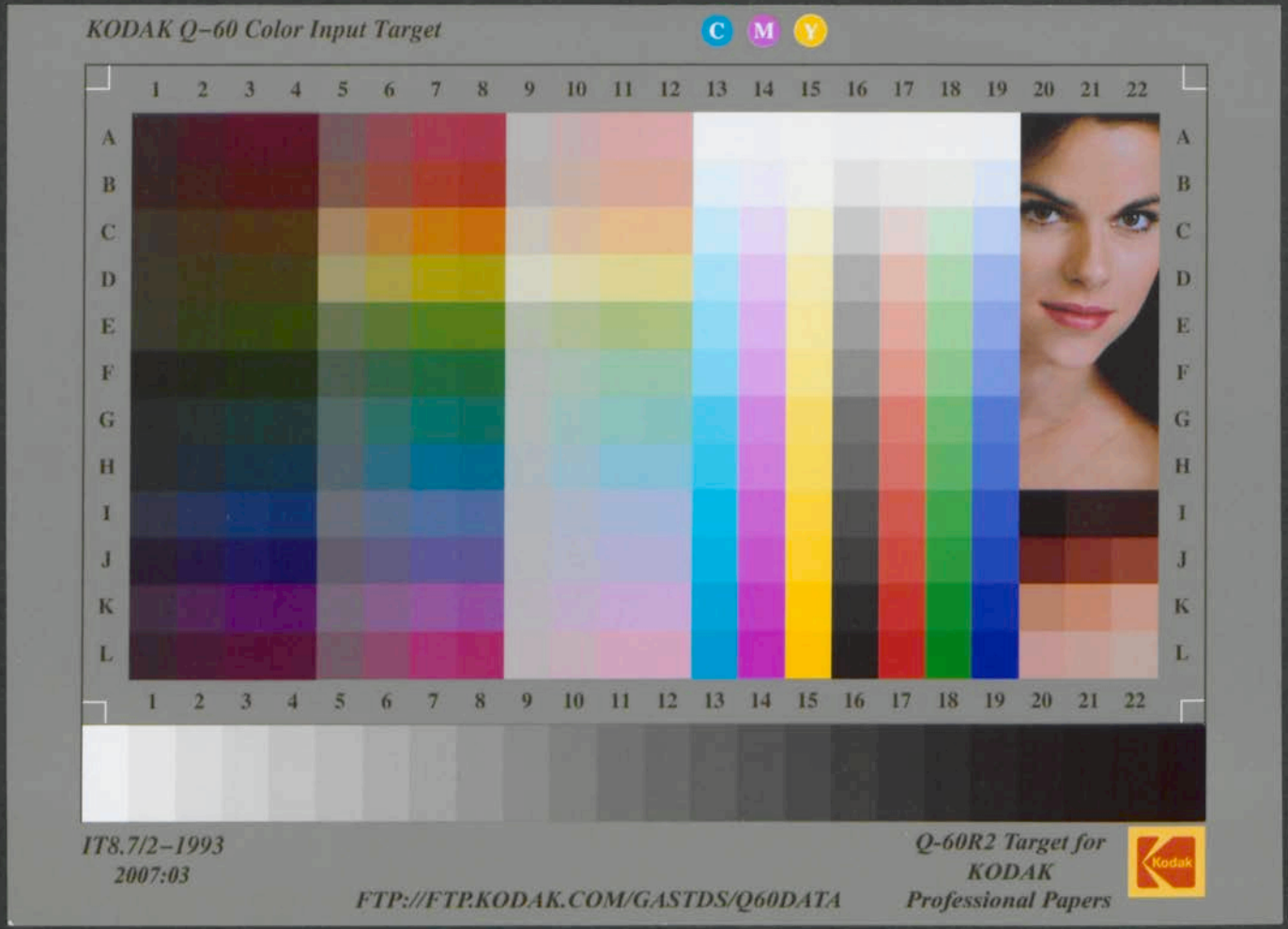
The cost to the taxpayer of this arrangement, as distinct from selling the shares to the highest bidder, cannot be known. It must be recognized, however, that a successful bid might - I repeat, might - have been referred to the Monopolies and Mergers Commission, and some months would have passed before the outcome was known. Had the decision gone against the bidder the taxpayers' interest would have suffered, and even a favourable decision would have deferred the sale receipts for some time. I believe, therefore, that the balance of advantage lies with a placing, subject to conditions, despite a small net loss to the taxpayer.

PART 1 ends:-

NJB to PM 30/6/80

PART 2 begins:-

Hansard
~~draft~~ statement S/S Ind. 1/7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