

W0743

PRIME MINISTER

12 October 1984

E(NI): REVIEW OF UK ATOMIC ENERGY AUTHORITY.

In the 30-year existence of the UKAEA we have seen

(a) the UK slide from first rank to second rank position in civil atomic energy, especially in terms of the proportion of our energy needs generated by cheap nuclear power;

(b) the main customer for civil nuclear reactors (CEGB) forced to buy reactor types other than those it would have chosen on technical, operational and commercial grounds;

(c) negligible export of reactors designed or made in the UK;

(d) the consumption by UKAEA of more than £5bn (at current prices) of taxpayers' money.

2. During most of this period the UKAEA has, by virtue of the interest of its research and its employment conditions, creamed off a significant slice of the UK's R & D talent and created a substantial technological asset. Because of the failure of the civil nuclear programme and the small amount of technology transfer to non-nuclear activities, the contribution of this technological asset to the wealth-producing sector of the economy has been negligible.

3. This is a dismal record for which the UKAEA itself and the Department of Energy under successive Governments must be culpable. The present review of UKAEA was an opportunity to take a fresh look at the situation and to create the conditions for the development of an internationally competitive nuclear power industry and the proper utilisation of the UKAEA's technology base.

4. Unfortunately the terms of reference of the review and the composition of the review Group ensured that the voice of status quo dominated (paragraph 5 of the Report) and the opportunity has, for the moment, been lost. Nevertheless the recommendations are small and tentative steps in the right direction and

you may wish to consider whether the present review should be followed at an appropriate time by one which is more broadly-based and can tackle the deep-seated problems I refer to above.

Privatisation and Trading Fund

5. I am unconvinced by the arguments against privatisation (10, 11) especially in the medium term but I accept the arguments against piecemeal privatisation (12). The UKAEA need not have monopoly status if international competition is allowed (as in MOD) and most of the other arguments are mechanics. The argument on "special status" in the public eye is circular. The public will always see atomic energy in this way while Government accords it special status rather than bracketing it with other potentially hazardous but private sector industries such as oil and chemicals.

6. I support the Trading Fund proposal (14). It makes sense in its own right and is also an essential first step if eventual privatisation is envisaged. On technology transfer (18) I disagree that the prohibition of non-nuclear manufacturing is not a problem. Private sector contract R & D companies are increasingly using pilot manufacture and test marketing of new products and even minority equity holding in joint ventures with manufacturing companies as means of better exploiting their innovations. The UKAEA will be uncompetitive if they are not allowed to act in a similar way. I suggest that the necessary legislative amendments are made at the same time as those required to set up the Trading Fund.

Customer/Contractor Relationships

7. I support the move to a customer/contractor relationship (8) but the Department of Energy's proposal to become an informed customer by engaging "2-3 nuclear experts" (9) is laughable. The result would either be the status quo or a new form of cosy relationship between UKAEA and DEn. The Rothschild transfer of MRC funds to DHSS failed because DHSS did not take steps to become an informed customer and eventually this transfer had to be reversed. While the Department will certainly want to hear the advice of the Authority on the content of its programme, it must equip itself to take its own decisions.

8. DEn could take advice from MOD on how to become an informed customer for R & D. My own view is that the Departmental experts will need to be backed by independent technical consultants perhaps drawn from the international arena.

This might cost up to £1m pa but would be money well spent if it enabled DEn to choose the right R & D programmes in their £175 spend.

Programme Issues

Thermal reactor

9. The nuclear industry is clearly the beneficiary of the Authority's work on thermal reactors and I support the Treasury line that all such work should be funded and controlled by them (6(ii)).

General Safety

10. The electricity supply industry as the operators of nuclear reactors have a responsibility in connection with their safety. Again, I support the Treasury line that projects should be funded by the supply industry on a proper customer/contractor footing, with the fall-back position that the Government could fund, if it felt right so to do, any work that the Authority felt should be done but for which it could not raise customer support from the nuclear industry. This proviso should also apply to any safety work that the Authority wishes to see done under the thermal reactor programme.

Fusion

11. While accepting that the energy policy case for the continued funding of fusion research at its present levels is weak, I do question the timing of the proposed small cut in the light of the delicate state of our negotiations with our EEC partners on European R & D. I suggest that announcement of the cut is delayed until agreement on the EEC R & D Financial Programme has been reached.

RBN

Cabinet Office
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