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PRIME MINISTER

12 October 1984

THE FUTURE OF THE ATOMIC ENERGY AUTHORITY

Robin Nicholson has reminded us that some of the best scientific brains of a generation have been squandered on misdirected work on civil nuclear power. Since our scientists are among the ablest in the world, the finger points to political misjudgements and intervention over a long period. Can we do better over the next 30 years?

Our priority should be to develop a framework for nuclear research which allows the maximum role for the market and little at all for political interference. The best solution would be to privatise the AEA. There is an answer to most of the objections in the report:

"Public sensitivities." The anti-nuclear lobbies which are immune to reasoned argument about nuclear risks are not impressed by the AEA's public status. Maintaining the AEA in the public sector sustains the belief that nuclear power is a uniquely dangerous beast, rather than a clean, proven energy source with demanding, but manageable, safety requirements.

"The AEA would still be a monopoly." It would, but it would face some powerful customers, notably the CEGB, who could in any case look abroad for alternatives.

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"Net assets are less than book values." They often are (Sealink's were, for example), but this does not inhibit flotation.

The other difficulties - liabilities for decommissioning existing facilities, pensions, working capital requirements - are privatisation mechanics.

The real problem with privatisation, which is not addressed in the paper, is: who would want it in its present form? The only conceivable purchaser would be the CEGB, but this would be unwelcome. AEA needs to be independent of CEGB for political/environmental/safety reasons; and if the CEGB acquired the AEA, it would be even more difficult to split and privatise the CEGB.

We have thought about the option of partial privatisation now. There are, undoubtedly, viable sub-businesses within the rambling AEA organisation. The report argues that the AEA research centres are so inter-related so as to make hiving off impossible. This may indeed be the present position, but once a new Board adopts a more commercial approach, costing each activity to each contract in a commercial way, viable sub-businesses will emerge.

The trading fund proposal is a useful first step towards privatisation. But it is worrying that, firstly, no timetable is envisaged even for considering further

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progress; secondly, that Peter Walker proposes to continue a £18 million block grant to the AEA to spend on thermal research as it pleases. This will sustain precisely the habits of mind we want to change. The AEA should be encouraged to look for new business and to sell off viable operations, to finance itself.

The Department of Energy has no expertise in this area, and no need to acquire it. If we want research to be funded independently of the nuclear industry, then the NII or the Department of the Environment should do it. They have statutory responsibilities. It would be more convincing politically if the funding were their responsibility. The Department of Energy is publicly committed to nuclear power.

We recommend that you:

- (1) welcome the trading fund solution as a first stage along the road towards privatisation;
- (2) question the need for the Department of Energy to fund thermal nuclear research at all;
- (3) press Peter Walker to give the new Chairman of the AEA Board a firm steer on privatisation.

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- 3 -
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