



DEPARTMENT OF ENERGY
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8 May 1985

SIR KENNETH COUZENS KCB
PERMANENT UNDER-SECRETARY OF STATE

Dear Robin

AEA MANUFACTURING

When we spoke last week about manufacturing by the AEA, following your meeting with Peter Walker, I said that I would look again at what were the possibilities under existing legislation. You continued to feel strongly that, as you put it in your letter of 30 April, the AEA should "be able to exploit its R & D in the modern way by demonstration, manufacturing and marketing of new products and processes, normally in partnership with private sector interests".

2. As far as nuclear technology is concerned, there is, as I understand it, no problem. The AEA is already authorised by the 1954 Act to participate in the manufacturing of items of nuclear technology.

3. So the problem only arises in the non-nuclear field. But even here there is considerable scope, I would have thought, for arguing that the existing powers enable the Authority to invest in manufacturing nuclear technology for application to non-nuclear fields. Certainly, Ivor Manley tells me that on a recent visit to Harwell, he was advised that two nucleonic instruments, obviously of a nuclear character but to be applied in an offshore context, were fully exploitable under existing powers.

4. That seems to leave products which are entirely non-nuclear, by nature as well as application. Here what we have in mind is to propose new powers to allow the Authority to take minority equity stakes in companies to exploit non-nuclear technologies. Such exploitation could, as I see it, include manufacturing on a joint venture basis, which is what you are seeking.

... The proposal



5. The proposal for minority equity stakes has yet to receive collective Ministerial approval. As you know, there could be political objections to extending in this way the remit of a public sector body and thus the boundaries of the public sector. But we are hopeful that, in the Trading Fund context, the case for this extra power will be accepted. To make the powers of manufacturing any more explicit would clearly increase the political difficulty.

6. What I am arguing, therefore, is that there is sufficient flexibility in the present and proposed legislative framework to go virtually as far as you wish to go. I thought I should let you know of my conclusion that to push the argument further runs the risk of coming up against a political block which, in all the circumstances, would be a disappointing outcome to these discussions.

Yours sincerely

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Sir Robin Nicholson FRS
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Attachment to letter from Secretary of State for Energy to Chief Secretary , dated 9 May 1985.

ANNEX

AEA BILL : FINANCIAL PROVISIONS.

- i) powers for the AEA to borrow up to a specified limit, subject to the approval of the Secretary of State and Treasury;
- ii) powers for the Secretary of State to lend monies to the AEA out of the NLF, and for the Treasury to guarantee non-NLF borrowing;
- iii) power for the Secretary of State to determine the size of the commencing debt and the terms and conditions of repayment;
- iv) a requirement on the AEA to seek the prior consent of the Secretary of State before guaranteeing the borrowing of subsidiaries or giving guarantees or indemnities to third parties. (Secretary of State would expect to control their power to invest in subsidiaries or other companies through his wide powers of direction under the 1954 Atomic Energy Authority Act);
- v) power for the Secretary of State to approve the AEA's capital expenditure programmes;
- vi) power to compensate Authority Board members in the event of dismissal;
- vii) repeal of Section 1(8) of the 1954 AEA Act which requires the Secretary of State to lay statements before the House on the remuneration of AEA Board members;

APRIL 1985

THE FUTURE OF THE UKAEA

The revenue earning parts of atomic energy are CEGB, BNFL and, at a lower level, NNC and private sector companies like Amersham. The future size and scope of UKAEA must relate to, and be largely funded from, these revenues. E(NI) accepted that this would mean some transfer of funding from the Department of Energy to the beneficiaries of the UKAEA's research.

2. But several of the companies involved are not true free market organisations and hence there has to be an element of artificiality about a customer-contractor relationship between them and UKAEA. The proper definition of this relationship is important during the transfer of funding if the UKAEA is not to be impossibly squeezed between a reducing Department spend and reluctant customers who have difficulty in justifying the increased expenditure to their customers eg the Electricity Council.

3. The letter from the Secretary of State for Energy to the Chairman of the CEGB dated 30 November, 1982 requires the latter to "ensure that the Board does all possible to explore and exploit the full potential of nuclear power to contribute to the cheap, effective and safe production of electricity". A subsequent letter confirmed that this remit included responsibility for an effective nuclear power station construction industry. Clearly all this requires on-going research on many aspects of atomic energy.

4. The chairman of the CEGB has indicated that he has no intention of adding to the Board's own nuclear research facilities while the UKAEA can provide, through a customer-contractor relationship, high quality expertise and facilities on a competitive basis. But it needs to be made clear to the Chairman (and to the Electricity Council) that the remit quoted in paragraph 3 does include research in the design, operation and safety of nuclear power stations, the development of improved nuclear power facilities, novel methods of generating power from atomic energy and the underlying research associated with all these items.

5. Similar considerations apply to BNFL in connection with research on nuclear fuel, fuel element reprocessing and (together with the CEGB) on the storage and disposal of radioactive waste. Again underlying research associated with these items should be included.

6. E(NI) accepted that while the UKAEA would never again occupy a sole central position in research, development and design of nuclear equipment, it will remain a vital source of independent policy advice for HMG and the Department of Energy in particular. This function will require a continuing R & D activity, for example in safety and new reactor systems which will be the basis of a permanent vote-funded activity in UKAEA.

7. There is no rational reason for dividing science and technology between nuclear and non-nuclear activities and the many years of UKAEA nuclear R & D have resulted in it becoming a general repository of technological skills and knowledge of formidable power. In its so-called non-nuclear activities, the UKAEA has made this resource available to British industry as a whole. But it has been shackled by regulations which give the UKAEA substantial constraints in exploiting its R & D in a non-nuclear context.

8. This differential between nuclear and non-nuclear must be removed if the UKAEA's technological assets are to be effectively utilized. Then the UKAEA would be able to exploit its R & D in the modern way by demonstration, manufacturing and marketing of new products and processes, normally in partnership with private sector interests.

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

Paragraphs 1 and 2

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

Paragraphs 3 and 4

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

Paragraph 5

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

Paragraph 6

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

Paragraphs 7 and 8

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