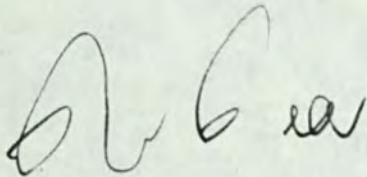


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01 211 6402

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

9 May 1985



AEA BILL: COVERAGE

Following consultations with your officials, Instructions have been sent to Parliamentary Counsel on the essential financial provisions required to implement the decisions we reached at E(NI) last year (E(NI)(84)7th meeting) to put the Atomic Energy Authority on a Trading Fund basis from 1 April 1986 and to allow it to borrow. Brief details of these provisions are annexed.

Two further policy issues have now emerged. First, the Atomic Energy Authority Board have requested specific provisions to enable them to take minority equity stakes in companies carrying out non-nuclear manufacturing, where the lawyers have ruled that under the current statutory framework they could be held to be acting ultra vires.

The Authority Board argue that by taking equity stakes in companies in return for intellectual property rights and possibly a small cash injection, non-nuclear inventions at Harwell are more likely to be successfully commercialised and marketed. Through such partnerships with the private sector they expect to achieve quicker and more effective technology transfer to UK industry as well as opening the door in particular cases to better financial returns on publicly-funded R&D than through licensing.

Whilst I recognise there could be some concern about the extension of public sector activity implied here I think that the potential benefits are worthwhile, and could be positively presented in the House. I could also point if necessary to my powers under the Atomic Energy Authority (Miscellaneous Provisions) Act 1981 to ensure disposal of successful investments to the benefit of the Exchequer in due course. And in the short term the measure could help to stimulate the creation of new businesses within the UK.

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I am therefore inclined to agree to their request.

Secondly, I have been giving thought, as I understand you have also, to whether we should facilitate some eventual privatisation of parts of the Authority's existing business, even though this is not an immediate prospect. I think it would be wrong to include provisions whereby I could effectively direct the breakup of the Authority and hive off whole sites like Harwell with its crucial work on nuclear safety etc. This would be a major departure from what we envisaged when Alastair Goodlad made his statement in the House in February and would make the passage of the Bill much more difficult.

I have also considered provisions restricted to the non-nuclear activities of the Authority. This would be less controversial but is not in fact necessary in relation to equity investments, given my existing powers to enforce disposal. I have in addition wide powers under Section 4(2) of the 1954 Act to ensure that the financial benefits of equity holdings or the sales hereof come back to the Exchequer in one form or another. To go further and take additional powers would, I fear, expose us to criticism that we were undermining the Trading Fund even before it started and would be only a degree less difficult to defend than provisions for hiving off any part of the Authority's activities.

I hope therefore that you can agree not to pursue this aspect further.

Finally, we also need to include two minor provisions in the Bill relating to nuclear insurance arrangements. First, I propose to take powers to enable the Government to underwrite the indemnities that are given by the AEA to BNFL and third parties in respect of certain nuclear liabilities that cannot be insured commercially. It would be inappropriate for the Trading Fund to bear these third party risks in future and we will, of course, arrange for appropriate premiums to be paid into the Consolidation Fund. Secondly, a technical amendment of the Nuclear Installations Act 1965, relating to insurance cover periods, is required.

I am copying this letter to the Prime Minister, the Lord President, Members of E(NI) and Sir Robert Armstrong.

PETER WALKER

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