



LOBACO

10 DOWNING STREET

From the Private Secretary

23 May 1985

SIR ROBIN NICHOLSON AND THE AEA

Geoff Dart's letter to me has attached to it a speaking note approved by the Secretary of State for Energy for the Prime Minister to use at her meeting with Sir Robin Nicholson. The Prime Minister would find it helpful to know whether the Chancellor is able to agree to the proposition in paragraph 5 of the note and, if not, in what terms he would advise the Prime Minister to speak to Sir Robin. Please could a note reach me by close of play tonight?

I am copying this letter to Geoff Dart (Department of Energy) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Mrs. Rachel Lomax,
H.M. Treasury.



SECRETARY OF STATE FOR ENERGY

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Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

27 May 1985

New Andrew,

SIR ROBIN NICHOLSON AND THE AEA

In reply to your letter of 16 May I attach a Speaking Note for the Prime Minister's use at her meeting with Sir Robin Nicholson on 24 May, which has been approved by my Secretary of State.

My Secretary of State feels strongly that we must now put a straightforward and direct proposition to Sir Robin Nicholson and ask him to make a very early, if not immediate, decision on the basis of that proposition. He has now been discussing this appointment with Sir Robin since December. The appointment of the present Chairman expires on 30 September and if Sir Robin is unwilling to accept the terms offered by the Government, it is urgent to identify a suitable alternative. The chances of extracting an able man from an existing appointment by that date are obviously dwindling as the weeks go by.

It is therefore my Secretary of State's view that we should not complicate the proposition to Nicholson by making it contingent on a Deloittes recommendation, especially as this piece of Deloittes advice to an individual member of the AEA Board has no particular status and we already know that it will recommend in favour of equity shareholdings anyway. The origin of the Deloittes advise is simply that John Bullock is a Managing Partner in Deloittes as well as a member of the AEA Board and he argued at the Board that, on the basis of Deloitte's experience of venture capital arrangements, successful technology transfer required a power to take equity holdings.

The Speaking Note in the form approved by my Secretary of State has not been fully agreed with the Treasury but in the circumstances he trusts they will see no difficulty about it. My Secretary of State wrote to the Chief Secretary on 9 May proposing a power to take minority equity stakes but has so far received no reply. However his understanding of the meeting on 16 May was that the taking of that power was approved in principle.



My Secretary of State very much hopes that the Prime Minister will be able to obtain an early affirmative answer from Sir Robin.

Yours ever,

Geoff

G S DART
Private Secretary



BRIEF FOR THE PRIME MINISTER'S MEETING WITH SIR ROBIN NICHOLSON

Speaking Note

I consider, as does Peter Walker, that you would make an excellent chairman of the Atomic Energy Authority at a crucial period in its development. Of course I would be very sorry to lose you as Chief Scientific Adviser but I think you would carry valuable experience from your present job to the Authority.

2. I appreciate that you are anxious to know whether your ideas on what the Authority needs to develop its role are likely to find favour with the Government before accepting appointment. I have seen your note on this.

3. My impression is that the only real area of difficulty is non-nuclear manufacturing. I understand that the Authority already has full manufacturing freedom in the nuclear area. It also has full freedom of manufacturing when applying technology from its nuclear work to non-nuclear areas. So we are talking only about developments which have had nothing to do with nuclear energy and are to be applied to non-nuclear fields.

4. It is obviously politically difficult to give the Authority powers which might lead to charges of non-nuclear competition with the private sector. The Authority will still have access to public funds and be able to use public assets. We are pledged to reduce the public sector rather than spread it wider.

5. Nevertheless, we would be prepared to put to Parliament a proposal to allow the Authority to take a minority stake of, say, 25% in non-nuclear manufacturing companies. This would be an important extension of its present power to licence its discoveries in exchange for a royalty. There might have to be some arrangement for Ministerial consent if such a stake ever required a substantial cash injection by the AEA but I hope not where the AEA contribution was in the form of its own know-how.

① Power only used (partly) for

Power use of royalty route



6. I hope you would agree that when coupled with the complete powers which the Authority already has in all areas derived from its nuclear activity, this would go a long way to meet your point. I believe that in other areas such as the independent Government-financed nuclear research programme which the Authority would retain, there is no difference of view.

7. I hope that on this basis you would now feel able to accept the appointment where I believe you could perform a valuable service for the nuclear industry and the country.

Background

Sir Robin Nicholson's note on the future of the AEA and a Departmental commentary are annexed. The one issue of real difficulty is his request that the Authority be given the same manufacturing freedom in the non-nuclear area as it enjoys already in the nuclear field. That requires legislation in the proposed AEA Bill and might be seen by Government supporters as at odds with the policy of reducing the public sector; and as opening up the possibility of nationalised manufacturing in any area into which the AEA chose to venture - or perhaps in any area which a different Government urged them to exploit.

Mr Walker's letter to the Chief Secretary of 9 May (copy also enclosed) argued in favour of giving the Authority power to take minority equity stakes in non-nuclear manufacturing companies. The present AEA Board has asked for a power to take minority stakes but not majority interests. In doing so they have taken account of advice from Mr John Bullock, Managing Partners of Deloittes, that an equity holding could in some circumstances be the only effective way of ensuring full transfer of AEA non-nuclear technology to the private sector.

Our assessment is that Sir Robin Nicholson will continue to press hard for full manufacturing powers, but that he could be persuaded to accept with reluctance the proposed power to take minority shareholdings. A decision from him is a matter of urgency.

It is possible that Nicholson may also refer to his wish to see the objectives of Sir Walter Marshall, as Chairman of the CEGB, expanded to include more explicit reference to CEGB responsibilities in nuclear R & D. In fact a formal revision of Sir Walter Marshall's letter of objectives would probably require publication and explanation, thus giving an excessively high profile to the whole matter. Our judgement is that the present letter of objectives is wide enough already, and it has enabled Sir Walter Marshall to increase his contributions to the AEA substantially. In the last analysis however the electricity

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industry must be free to make its own judgement about the commissioning of programmes from the AEA. It would be better if none of this were raised but if the Prime Minister has to respond in this area she might say that her understanding is that Sir Walter Marshall's objectives in relation to nuclear reactor R & D are already quite widely drawn.



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23 May 1985

Andrew Turnbull Esq
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LONDON SW1

A handwritten signature or set of initials, possibly 'MT', written in dark ink.

Dear Andrew

SIR ROBIN NICHOLSON AND THE AEA

The Chancellor has seen a copy of Mr Walker's letter of 23 May.

The Chancellor is not attracted by the approach proposed by Mr Walker. As was recognised at the Prime Minister's meeting on 16 May, the Government is awaiting Deloitte's advice on whether technology transfer from the AEA requires that organisation to take minority equity stakes in private sector companies, or could be achieved by other means. This is an issue of substantial political and economic significance.

Mr Walker's latest letter makes clear that the AEA have taken a position on the basis of what appears to be some fairly casual comments by John Bullock. In view of this the Chancellor considers it all the more important to await Deloitte's considered advice. It is, of course, hard to see this contradicting Bullock but the quality of the argument may well be instructive.

In view of this the Chancellor considers there are two options. First, to delay the Prime Minister's meeting with Sir Robin until after Deloitte's advice has been received (now expected in the latter part of next week) and an agreed speaking note has been produced. Second, to speak along the lines agreed at the Prime Minister's meeting on 16 May. I attach a speaking note on this basis which the Chancellor believes accurately reflects the outcome of the meeting.

I am copying this letter to Geoff Dart (Department of Energy) and Richard Hatfield (Cabinet Office).

Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary

APPOINTMENTS IN CONFIDENCE

BRIEF FOR THE PRIME MINISTER'S MEETING WITH SIR ROBIN NICHOLSON

Speaking Note

I consider that you would make an excellent Chairman of the Atomic Energy Authority, at a crucial period in its development. Although I would obviously be very sorry to lose you as my Chief Scientific Adviser.

2. I appreciate that you are anxious to know whether your ideas on the future role of the Authority are likely to find favour with the Government before accepting appointment, and I have seen your note on this.

3. I think there is much common ground between us eg on the Authority's role as a vital source of independent policy advice and the need for some continued Government funding.

4. The only really difficult area is manufacturing, where you are arguing that the Authority should have the same freedom of action in the non-nuclear area as it already has for its nuclear activities. A smooth transfer of technology from the Authority is, of course, highly desirable but:

- there are obvious political difficulties in giving the Authority, with its access to public funds, powers which might give rise to changes of unfair competition with the private sector. There is also a risk that some ventures might turn into lossmakers;
- I understand that Deloittes are advising on the effectiveness of a variety of different approaches to technology transfer;
- we would prefer to rest on the traditional route of the Authority licensing its discoveries in exchange for a royalty. But if the advice is that this is not always effective or practicable we would be prepared to consider giving the Authority power to take a limited - say 25% - minority stake in non-nuclear manufacturing companies. Can you agree to leave the matter on this basis?

Defensive

[Nicholson may also press for Sir Walter Marshall's objectives to be expanded to include greater reference to the CEGB's responsibilities for nuclear R&D.]

The objectives are being looked at and some clarification may be appropriate. But any change will be directed to smoothing a transfer of funding from the Department to the CEGB. It will not necessarily lead to any change in the total funding available to the Authority.

Background

Sir Robin Nicholson's note on the future of the UKAEA and a Departmental commentary is annexed. The only real bone of contention is manufacturing powers, where Nicholson argues that the difference in treatment between the Authority's nuclear and non-nuclear activities should be removed. This could, it is judged, be hard to defend politically during the passage of the AEA Bill through Parliament.

Mr Walker's letter to the Chief Secretary of 9 May, which the Prime Minister has seen, argues in favour of giving the Authority powers to take minority equity stakes in non-nuclear manufacturing companies. This reflected oral advice from the UK Managing Partner of Deloitte Haskins & Sells (John Bullock) in his capacity as a member of the Authority Board, to the effect that in some circumstances an equity holding could be the only effective way of ensuring the satisfactory transfer of the AEA's non-nuclear technology to the private sector. Bullock considers that, unlike the royalty route, it would demonstrate both the Authority's confidence in the potential of the discovery and enable it to influence the approach of the private sector entrepreneurs in exploiting it. There are, however, a number of alternative approaches. Deloitte are now preparing a paper analysing these, and Ministers will be able to consider it. But it is likely to prefer the equity route.

We believe that Nicholson will press hard for full manufacturing powers but would, if pressed be satisfied with a power to take minority shareholdings. He may therefore be unwilling to give a firm answer until Deloitte's written views are to hand.

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PRIME MINISTER

UKAEA

Following the meeting on the Chairmanship of UKAEA I asked the Department of Energy to prepare a speaking note, agreed with the Treasury, for you to use at your meeting with Sir Robin Nicholson. I interpreted the sense of the meeting as being that the Government favoured technology transfer but could not agree to an unrestricted power for UKAEA to establish manufacturing ventures for non-nuclear technology. It was hoped that such technology transfer could be achieved through royalties and levies, on which advice was awaited from Deloittes. Should that advice come down against royalties the Government would be prepared to allow UKAEA limited possibilities to take minority equity stakes in joint ventures.

Mr. Walker is keen that at the meeting you should land Sir Robin, but he is worried that the cautious line worked out at the meeting would leave Sir Robin prevaricating or possibly even provoke an outright refusal. The speaking note he has submitted - Flag A - by-passes the royalties route and moves straight to allowing 25 per cent minority holdings subject to Ministerial consent where this takes the form of injection of cash rather than of know-how, men or machinery.

The Chancellor still feels that you should take the more cautious line and not give too much away until advice has been received from Deloittes, though he concedes that this is likely to favour the equity route.

Do you want:

- (i) to go hard for recruiting Sir Robin while conceding straightaway minority equity stakes subject to safeguards;

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(ii) take the risk that Sir Robin may say no or delay still further while retaining the presumption in favour of royalties;

(iii) postpone the meeting until the two Departments can agree?

AT

23 May, 1985

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